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Brent Pension Fund Sub-Committee

Tuesday 26 February 2013 at 6.30 pm
Committee Room 3, 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.uk

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

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Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item Page

1 Declarations of personal and prejudicial interests

Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.

2 Minutes of the previous meeting 1 - 6

3 Matters arising

4 Deputations (if any)

5 Presentation by Baillie Gifford

Representatives from Baillie Gifford will present on their Diversified Growth Fund to the Sub-Committee.

6 Presentation by Dimensional

Representatives from Dimensional who manage emerging market equities will give a presentation to the Sub-Committee.

7 Monitoring report on fund activity for the quarter ended 31 December 2012 7 - 22

This report provides a summary of the Fund's activity during the quarter ended 31 December 2012 and examines the actions taken within the economic and market background, and investment performance. The report also comments on events in the quarter.

Ward affected: All Wards

Contact Officer: Mick Bowden, Deputy Director of Finance

Tel: 020 8937 1460
mick.bowden@brent.gov.uk

8 Statement of investment principles review 23 - 34

This report provides an update on the review of Brent Pension Fund's Statement of Investment Principles (SIP) in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Ward affected: All Wards

Contact Officer*:* Mick Bowden, Deputy Director of Finance

Tel: 020 8937 1460
mick.bowden@brent.gov.uk

9 Any other urgent business

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

10 Date of next meeting

The date of next meeting will be confirmed at the Council's annual meeting in May.

11 Exclusion of press and public

The following reports are not for publication as they contain exempt information as specified in Schedule 12A of the Local Government Act 1972, namely:

"3. Information relating to the financial or business affairs of particular persons (including the authority holding that information)."

12 Actuarial contract 35 - 38

This report provides an update on the Fund's actuarial position.

Ward affected: All Wards

Contact Officer*:* Mick Bowden, Deputy Director of Finance

Tel: 020 8937 1460
mick.bowden@brent.gov.uk

13 Review of asset allocation 39 - 50

This report outlines the recent changes made to the Fund's investment strategy.

Ward affected:	All Wards	***Contact Officer**:* Mick Bowden, Deputy Director of Finance Tel: 020 8937 1460 mick.bowden@brent.gov.uk

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- 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 20 November 2012 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Mrs Bacchus, Brown, Hashmi, Hirani (alternating for Mitchell Murray), BM Patel, and co-opted member George Fraser

Apologies for absence were received from: Councillors Crane and Mitchell Murray

1. **Declarations of prejudicial interests**

   None declared

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 25 September 2012 be approved as an accurate record of the meeting.

3. **Matters arising**

   None

4. **Deputations**

   None.

5. **Monitoring report on fund activity for the quarter ended 30 September 2012**

   Members gave consideration to a report that provided a summary of Fund activity during the quarter ended 30 September 2012. The report also examined the actions taken, the economic and market background, and investment performance, as well as comments on events in the quarter. Anthony Dodridge, Head of Exchequer and Investment, highlighted that it had been a positive quarter with the Fund increasing in value by £11.5m, matching the benchmark return figure of 3.0%. It was noted that there had been a particularly strong performance in UK small companies as well as and emerging markets, and whilst property did not make any movements this was only represents a small proportion of the Fund. It was explained that private equity funds were currently out of favour as pension funds were not looking to take on more risk diversify despite the current political drive to increase investment in UK infrastructure to bolster the flagging UK economy. It was stated that the Brent Pension Fund was highly diversified across a range of asset classes which protected the Fund if an investment performed poorly, although did restrict the potential benefits from growth in any one particular investment. Anthony Dodridge highlighted that the Fund held a minimal amount of its assets in cash which was good in a times when investments were performing well.

The Independent Advisor, Valentine Furniss, provided the Sub-Committee with a snapshot of the economy, highlighting the impact of the Eurozone crisis on various global economies. It was noted that it was uncertain when the Eurozone crisis would be resolved, although it would clearly be beneficial for all economies of the Eurozone not to fracture.

Valentine Furniss highlighted the increasingly strong position of the Asian economy economies with strong growth and a worldwide influence. One exception to this was Japan's economy which was based on an its outdated political system and the outcome of its forthcoming a general election was seen to be key.

It was explained that whilst there were signs that the UK economy was coming out of recession, and that investment in UK infrastructure was to be encouraged, it was noted that continued market volatility should be expected particularly in the light of with the Government's continued harsh austerity programme.

RESOLVED:-

members noted the report.

6. **Report from Alinda Capital Partners**

Alinda Capital Partners attended the meeting and provided the Sub-Committee with an update of the current investments performance. The fund comprised total investments of $4bn of which approximately $3bn had already been invested, with the intention to invest the remainder of the fund over the next 6 – 12 months. Alinda Capital Partners felt that they had invested conservatively in terms of leverage, adding incremental value each year. An overview of the investments was given and they highlighted their track record of adding value in North American investments despite the complex energy issues. Steady growth was anticipated given the position on the J-curve, and Alinda Capital Partners highlighted the merit of having chosen not to file in the USA and paying tax on Brent Pension Fund's behalf.

Members queried the apparent anomaly of an improving yield net of fees yet given the downward trend in the gross cash yield. It was clarified that short term high yields were skewing the figures. It was explained that a 5-8% gross cash yield should be expected in 2013/14 but depended on the timescale for investing timing of the remaining capital. Due to the changing dynamics of pension funds as persons living longer, Alinda Capital partners felt that their infrastructure investments which would deliver a 5-7% yield would represent a good match for pensions. It was anticipated that as the gross and net figures would began to converge, with a typical spread of between 1.5% and 2.0%.

An overview of the investments within the USA was given particularly in view of hurricane Sandy which had not impacted the investments significantly. The 310-acre site of the HFOTCO investment was felt to have been bought at approximately half its true market value based on the long term contracts it holds. It was noted that the energy investment market had changed dramatically, particularly in light of the USA's intention to become self-sufficient and that a proactive approach was required but the investments' the fund has place had held it in a good position for the future.

Alinda Capital Partners are confident in the long-term prospects of their European investments, which are considered to be an important part of the overall asset portfolio. It was explained that the Agri.Capital investment had a value added strategy of substantial expansion through opportunities in Germany and the rest of Europe. Alinda Capital Partners informed the Sub-Committee that they intended to expand the Binnenlandse Container Terminals Nederland investment by expanding the existing terminal and the acquisition of new terminals. It was noted that although it was a small investment it was important and hoped to be doubled in size over the next five years.

The Deputy Director of Finance, Mick Bowden, queried whether the Government's encouragement towards investing in UK infrastructure would be successful or have implications for the Fund. Alinda Capital Partners noted that the infrastructure was a complex investment and appeared to be the right asset for pension funds and Canadian pension funds frequently invested in this particular asset class. It was clarified that it would need to be the right asset for the Fund but felt to be an appropriate area to be looked at, particularly in line with the Government's intention to encourage UK infrastructure growth and investment. It was highlighted that a third fund was hoped to be raised over the next 12 months with a similar yield but pre-established framework although this would mean less value to be added but a sustainable cash yield from day one. Alinda Capital Partners concluded that although their fees were high, these needed to be viewed within the context of having achieved a reasonable performance to date and would continue to invest in the right manner going forward.

7. **Socially responsible investment**

The Sub-Committee received a report that responded to a recommendation by the Council's Health Partnerships Overview and Scrutiny Committee at its meeting on 18 July 2012 requesting members to reconsider their decision made on 30 November 2010 to reaffirm its existing investment policies included in its Statement of Investment Principles: fund managers would take investment decisions on the basis of the best interests of the Fund, held for the best interest of beneficiaries.

During discussion, members felt that the information could appear contradictory although noted that other councils had managed to achieve socially responsible investment whilst acting in the best interests of the fund by recognising that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities. It was clarified that although Brent Pension Fund did not directly invest in tobacco companies but only indirectly through pooled funds, this was not cited in the Statement of Investment Principles.

It was highlighted that members of the Sub-Committee were acting on behalf of the interest of the Pension Fund rather than policies of the Council and had an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk. It was further clarified that if the Sub-Committee should have a concern regarding investing in a certain industry due to the potential long term risk and future of the industry, then it would be acceptable and lawful for the Sub-Committee to cite this in the Statement of Investment Principles.

Officers queried whether members wished to look at the wider concept of social investment and members felt that they were being asked to address the issue of tobacco company investment and could not make decisions on the general concept of socially investing. Concern was expressed regarding the limitations of socially investing and the potential impact that stifling fund managers in this way could have on investment performance. Members felt that the current practice of not directly investing in tobacco companies should be incorporated into the Statement of Investment Principles and the following recommendation was proposed and seconded:

"that officers be instructed to amend the Statement of Investment Principles in line with the discussion of incorporating current practice of not directly investing in tobacco companies and brought back to the Sub-Committee for approval"

The recommendation was carried unanimously.

RESOLVED:-

that officers amend the Statement of Investment Principles in line with the discussion of incorporating the current practice of not directly investing in tobacco companies and bring to the next Sub-Committee for approval.

8. **2013 Actuarial valuation of Brent Pension Fund**

The Deputy Director of Finance submitted a report which updated the Pension Fund Sub-Committee on the progress of the 2013 actuarial valuation currently under way. It was highlighted that further information would be reported back to the Committee on completion of the exercise.

RESOLVED:-

members noted the report.

9. **Any other urgent business**

Anthony Dodridge, Head of Exchequer and Investments informed the Sub-Committee that the Statement of Investment Principles required the position of Independent Advisor to be reviewed periodically. A test of the market would be carried out during March/April 2013, with the current Independent Advisor competing alongside three other shortlisted candidate for a three year contract with the option to extend for a further two years.

10. **Date of next meeting**

The next meeting will take place on 26 February 2013.

11. **Exclusion of press and public**

RESOLVED:

that the press and public be excluded from the remainder of the meeting as the reports to be considered contained the following category of exempt information as specified in Schedule 12A of the Local Government Act 1972, namely:

"3. information relating to the financial or business affairs of any particular person (including the authority holding that information)".

12. **Pensions administration contract**

The report provided progress on the contract for pension administration services. Andrew Gray, Pension Manager, drew members' attention to the background to the appointment of the contractor, and the joint framework established with the Borough of Hammersmith and Fulham. It was reported that the contract was awarded on the basis of achieving savings of approximately £60,000 - £80,000 per annum and a good quality service provision. Andrew Gray informed the Sub-Committee of the initial concerns regarding the quality of the service provided and the actions undertaken to increase performance to a satisfactory level. He continued to highlight that although the service currently provided was adequate, it was not at the level expected when the contract was originally awarded and he would be exploring actions to address this underperformance in due course.

During discussions, the Sub-Committee highlighted that they were responsible for ensuring the best level of service to their membership and felt that action to invoke rebates be recommended. Additionally it was felt that the contractors should be held accountable to the Sub-Committee and be invited to attend a future Sub-Committee meeting.

RESOLVED:-

(i) members noted the report

(ii) members recommended that the Pension Manager invoke the rebate policy to encourage an improved performance.

13. **Review of fund managers' fees**

Members received a report that outlined the action taken by Anthony Dodridge, the Head of Exchequer and Investment, on investment management fees incurred by the Brent Pension Fund. He reported on the successful negotiations that had taken place highlighting an annual ongoing saving of £81,000, which ensured that the fund managers' fees paid by the Brent Pension Fund were now highly competitive.

RESOLVED:-

members noted the report

The meeting closed at 8.30 pm

S CHOUDHARY
Chair

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BRENT COUNCIL	**Pension Fund Sub-Committee** 26 February 2013 **Report from the Deputy Director of Finance**
For Information	Wards Affected: ALL
Monitoring report on fund activity for the quarter ended 31 December 2012	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 December 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) The Fund has increased in value by £12.0m from £489.0m to £501.0m, and the Fund return of 2.6% was slightly ahead of its quarterly benchmark of 2.4%. The strong performance can be attributed to results in Emerging Market Equities, UK Smaller Companies Equities, UK Equities, Fixed Income and Diversified Growth which delivered returns of between 2.9% and 6.2%. Property has continued to achieve a negligible return. Whilst less clear to gauge performance in the short term, Private Equity appears to be delivering a reasonable underlying performance over the longer term.

b) The positive performance for the quarter ended 31 December 2012 has continued during the month of January 2013, where the Fund has continued to increase in value by an estimated £14.5m. An investment update for the month of January 2013, written by the Independent Adviser, is attached.

c) It should be noted that the Fund return of 2.6% represents an underperformance when compared to the WM Local Authority average fund return of 2.9% for the quarter, as a result of Brent's asset allocation with its relatively low exposure to Equities which had a strongly positive quarter and high exposure to Alternatives which performed rather less so.

2. RECOMMENDATION

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 31 December 2012

3.1 Against a still very uncertain backdrop, Equity and Credit markets made further gains in the quarter ended 31 December 2012. This rounded off what turned out to be a very positive year for risk assets.

3.2 Despite a lack of much encouraging news on the domestic front, UK Equities delivered 3.8% over the quarter, bringing the one year return to 12.3%. Large cap gains were outstripped by mid and small cap stocks, with the best returns offered in the Financials and Telecoms groups.

3.3 In the eurozone, positive steps were taken to address the region's debt crisis and ailing banking system. Consequently, European equities provided the best returns of the major regions, returning 8.0% for the quarter and 17.3% for the year.

3.4 Relative to the other equity regions, North America disappointed in the final quarter. Economic data was generally supportive of equity markets, but a muted response to both the outcome of the Presidential election and latest round of quantative easing combined with political brinkmanship over the looming 'fiscal cliff' pared back returns. The region returned -0.8% over the quarter but a strong 10.7% for the year.

3.5 In Japan, a landslide victory for the Liberal Democrat party in December brought renewed hope of decisive policymaking in respect of its ailing economy. Japanese equities returned 5.1% in the quarter but the weakness in the Yen masked a hugely positive local return of 17%. Excluding Japan, the Asia Pacific region posted a return of 5.4% over the quarter and 18.9% for 2012.

3.6 Whilst performance in aggregate within emerging equity markets was strong (4.9% for the quarter, 13.4% for the year), unsurprisingly, individual country performance varied widely. The star performer in the quarter was China, which returned 15.0% whilst in contrast; the poorest performer was Egypt with a return of -12.0%.

3.7 Government bond markets seen as 'safe haven' underperformed corporate bonds in the final quarter, as appetite for risk assets returned. In the UK, Gilts gave up 0.4% in the quarter whilst Sterling corporate bonds gained 2.2%. Over the year as a whole, Gilts have returned 2.7% compared to corporate bonds' 13.3%.

3.8 Property performance was lacklustre in the last quarter and over the year, where negligible returns point to continued downward pressure on capital values.

Outlook for 2013

3.9 Higher starting valuations probably mean an exact re-run of 2012 is unlikely, although there is widespread optimism that most asset classes will deliver positive returns in the year ahead.

3.10 Overall, the world grew in 2012 by around 2.5% and the US reaccelerated midyear. The UK has been sluggish and probably won't return to growth for some time, but even if a "triple-dip" recession occurred, it would only be a mild one. Gross domestic product for 2013 in the eurozone will be down slightly but there will be pockets of strength, such as Germany. China didn't come close to the widely feared 2012 hard landing, while emerging markets continue to grow briskly.

3.11 Despite world economic growth being below most estimates of trend growth, investors seem happy to move away from safe havens and into more risky or economically exposed assets – global equities, credit markets and emerging market bonds, while gold and developed world government bonds are attracting less interest.

3.12 The global economy is split between a weak developed world (encumbered by high debt levels, fiscal austerity and a dysfunctional banking system) and a strong developing world. In broad terms, this divide is expected to persist. However, the picture is gradually changing in that growth in some developing economies has slowed, while there are signs of recovery in the United States. Progress is also being made on the big economic challenges that face the developed economies, and the direction of travel is encouraging.

3.13 Central banks have been very active, continuing with their quantitative easing programmes and intervening in bond markets. A commitment (real or perceived) to print money at any sign of trouble is a powerful stimulant for markets and seems to be the best explanation for what happened in 2012. Low returns on cash deposits and developed world governments have encouraged a move into higher-yielding investments, thus pushing asset prices up.

3.14 Broad expectations are for moderate growth in 2013 and for the first time in a few years, there is room to imagine a brighter and less unstable few years in which the private credit cycle starts to reinforce the credit cycle with an evolving pick-up in global growth.

Table 1: Asset allocation as at 31 December 2012 compared to the benchmark

Market (1)	Market Value 31.12.12 £M (2)	Market Value 31.12.12 % (3)	WM LA Average 31.12.12 % (4)	Fund Benchmark 31.12.12 % (5)	Market Value 30.09.12 £M (6)	Market Value 30.09.12 % (7)	WM LA Average 30.09.12 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	81.6	16.3	18.6	15.0	79.1	16.2	19.1
Equities							
UK – Legal & General	70.8	14.1	26.2	13.0	68.2	13.9	25.8
UK - Small Companies Henderson	19.0	3.8	*	4.0	18.2	3.7	*
O/seas – developed Legal & General	108.1	21.6	30.6	22.0	105.9	21.7	30.4
O/seas – emerging Dimensional	31.3	6.2	6.0	8.0	29.5	6.0	5.4
Property							
Aviva	33.5	6.7	6.7	8.0	33.7	6.9	6.8
Private Equity							
Capital Dynamics	61.1	12.2	4.0	10.0	60.0	12.3	3.7
Yorkshire Fund	1.3	0.3	*		1.3	0.3	*
Hedge Funds							
Fauchier	41.2	8.2	2.0	5.0	40.2	8.2	2.7
Infrastructure							
Alinda	15.3	3.0	0.9	6.0	15.2	3.1	1.5
Capital Dynamics	8.4	1.7	*		4.4	0.9	*
Henderson PFI Fund II	1.1	0.2	*		1.1	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	28.5	5.7	1.5	8.0	27.8	5.7	0.8
Cash	-0.2	0.0	3.5	1.0	4.4	0.9	3.8
Total	**501.0**	**100.0**	**100.0**	**100.0**	**489.0**	**100.0**	**100.0**

3.15 Table 1 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. Aside from market movements, there have been no investment changes to the Brent Pension Fund during the quarter.

Asset allocation of the Fund

3.16 The WM Local Authority average asset analysis for the quarter ended 31 December 2012 shows increased allocations into the following asset classes:

Asset class	**Increase in percentage allocation**
Overseas Equities	+0.8%
Diversified Growth	+0.7%
UK Equities	+0.4%
Private Equity	+0.3%

3.17 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**
Hedge Funds	-0.7%
Infrastructure	-0.6%
Fixed Income	-0.5%
Cash	-0.3%
Property	-0.1%

3.18 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31 December 2012.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31.12.12			Year Ended 31.12.12			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	3.2	1.5	2.4	8.5	6.0	6.8	Absolute return 6% p.a.
Equities							
UK – Legal & General	3.8	3.8	3.8	12.3	12.3	12.3	FTSE All share
UK - Small Companies Henderson	4.7	8.3	n/a	25.6	36.3	n/a	FTSE Small Cap
O/seas – developed Legal & General	2.0	2.0	2.0	12.0	12.0	12.0	FTSE Dev World ex UK
O/seas – emerging Dimensional	6.2	4.9	4.5	12.9	13.4	14.0	MSCI Emerging Markets
Property							
Aviva	0.2	0.9	0.8	-0.2	2.6	2.5	IPD All Properties Index
Private Equity							
Capital Dynamics	0.8	2.0	3.6	3.2	8.0	5.9	Absolute return 8% p.a.
Yorkshire Fund Managers	-1.5	2.0	*	-6.0	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	2.6	1.4	1.5	4.3	5.5	4.5	LIBOR + 5% p.a.
Infrastructure							
Alinda	1.9	2.0	1.0	7.6	8.0	4.6	Absolute return 8% p.a.
Capital Dynamics	-1.3	2.0	*	-5.1	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	1.0	2.0	*	-2.2	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	2.9	1.0	1.8	10.8	4.0	6.7	Base Rate + 3.5% p.a.
Cash	0.2	0.1	0.6	0.6	0.5	1.6	Base Rate
Total	**2.6**	**2.4**	**2.9**	**9.0**	**9.8**	**10.2**	

3.19 The Fund's overall return of 2.6% outperformed its quarterly benchmark of 2.4%. Diversified Growth, Fixed Income, Emerging Market Equities and Fund of Hedge Funds outperformed their respective benchmarks, whilst UK Smaller Companies Equities, Private Equity and Property underperformed against their benchmarks.

3.20 The Fund outperformed the WM Local Authority average in the asset classes of Emerging Market Equities, Diversified Growth, Fund of Hedge Funds, Infrastructure and Fixed Income. The Fund underperformed the WM Local Authority average in the asset classes of Private Equity and Property.

3.21 Over one year, the Fund return of 9.0% when compared to its benchmark of 9.8% equated to a net underperformance of -0.8%. Fixed Income and Diversified Growth performed well over the period and outperformed their benchmarks. Equities and Infrastructure were broadly in line with their benchmarks. Private Equity, Fund of Hedge Funds and Property underperformed their benchmarks. The Brent Fund's return of 9.0% has also underperformed when compared to the WM Local Authority average fund return of 10.2%, mainly due to the strongly positive performance of publicly quoted Equities for which Brent has a lower proportionate exposure and poor performance of Alternative assets where Brent has invested to a greater extent.

Indicative performance of the Fund since December 2012

3.22 Following a strongly positive quarter ended 31 December 2012, the Fund has continued to increase in value by an estimated £14.5m:

	As at 31 January 2013 £M	**As at 31 December 2012 £M**	**Movement**
Fixed Income			
Henderson	82.0	81.6	↑
Equities			
UK - Legal & General	75.4	70.8	↑
UK - Small Companies Henderson	20.4	19.0	↑
O/seas – developed Legal & General	116.3	108.1	↑
O/seas – emerging markets Dimensional	32.7	31.3	↑
Property			
Aviva	33.5	33.5	=
Private Equity			
Capital Dynamics	61.1	61.1	=
Yorkshire Fund Managers	1.3	1.3	=
Hedge Funds			
Fauchier	26.9 *	41.2 *	↓
Infrastructure			
Alinda	15.3	15.3	=
Capital Dynamics	8.4	8.4	=
Henderson PFI Fund II	1.1	1.1	=
Pooled Multi Asset			
Baillie Gifford DGF	29.2	28.5	↑
Cash	11.9 *	-0.2 *	↑
Total	**515.5**	**501.0**	↑

* recall of £15m from Fauchier following a decision by the Pension Fund Sub-Committee at its meeting of 25 September 2012 to reduce the Fund's strategic allocation to Fund of Hedge Funds from 10% to 5%.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

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

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising from this report.

8. BACKGROUND INFORMATION

Henderson Investors – December 2012 quarter report
Legal & General – December 2012 quarter report
Fauchier Partners – December 2012 quarter report
Dimensional Asset Management – December 2012 quarter report

9. CONTACT OFFICERS

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

MICK BOWDEN
Deputy Director of Finance

ANTHONY DODRIDGE
Head of Exchequer and Investment

Report from the Independent Advisor

Investment Update for the Month of January 2013

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

	Indices	Month ended 31st January 2013
		%
Equities		
Europe	FTSE Developed Europe (ex UK)	9.6
North America	FTSE North America	7.7
UK	FTSE All Share	6.4
Japan	FTSE Developed Japan	6.3
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	5.3
Emerging Markets	MSCI Emerging Markets Free	4.0
Fixed Interest		
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	4.5
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	-1.0
UK Gilts	FTSE British Government All Stocks	-1.9
Property	IPD*	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.0

* The IPD UK Property return over December 2012 was 0.3%. The returns for January 2013 are currently unavailable.

Currency movements for month ended 31st January 2013

Currency	31st December 2012	31st January 2013	Change %
USD/GBP	1.626	1.585	-2.5
EUR/GBP	1.233	1.168	-5.3
USD/EUR	1.318	1.357	3.0
YEN/USD	86.465	91.260	5.5

As can be seen from the above table, January proved to be a truly banner start to the year with all regional equity returns well into positive territory. This was all the more impressive given the very robust performances already recorded for the quarter ended 31st December 2012. The main explanations for the powerful returns were as follows. There is little doubt that equity investors, both in the UK and elsewhere, had allowed themselves to become too pessimistic in the autumn of last year due to a combination of the Fiscal Cliff concerns in the USA, the continuing crisis management in the Eurozone, the worries over a possible Chinese hard landing and the negative effects of the UK's harsh austerity measures with the retail sector particularly under pressure. It is therefore not surprising that, as has happened so often in the past, equity levels became markedly over sold; even the equities of high quality companies. As a consequence of all the apprehension and gloom at that time investing institutions and individuals had allowed their portfolio's liquidity to build up to historically high levels, even at a time of extremely low returns both on cash and the presumed safe haven of gilts and sovereign debt, particularly in the 10 year area with negative real returns. In retrospect, it was just a matter of time before this fixed interest bubble was burst. There has been an increasing investor appetite for high yield low grade bonds. This risk will have to be carefully watched.

In the light of the above and the improving market background both in the UK and globally it is no wonder that equity levels continued to surge in the month of January, buoyed by the head of steam built up in the previous quarter. Investors in general were prepared to take on more risk as they did not wish to miss a meaningful market upturn and were prepared to buy equities at attractive levels based on the measures of attractive yields, low price earnings ratios and improving balance sheets. Investors were also prepared to sell seemingly over bought and low yielding fixed interest stocks.

The returns table really speaks for itself. It seems fitting that the largest return of 9.6% was achieved in Europe as fears for the collapse of the Eurozone and the Euro diminished. For the first time for many years investors exhibited increased confidence in Japan (+6.3%). This was down to a belief that, this time round, the recently elected prime minister, Shinzo Abe, really would at last be successful in applying a greater dynamism to the erstwhile anaemic and deflation prone economy.

Fixed Interest returns were negative with the clear exception of Index Linked Gilts which recorded a worthwhile 4.5% rise on inflation expectations. Property continued its most pedestrian recovery with a modest 0.3% return.

As can be seen from the content to this investment brief the month of January has indeed been most eventful. During the month the principal events, macro-economic data and forecasts within the regions were as follows:-

UK

- HMV fell into administration with the possibility of 4,000 job losses.

- Jessops, the camera retailer, became bankrupt with the loss of 1,400 jobs.

- Prime Minister Cameron plans to put membership of the European Union to a national referendum if the Conservatives win the next General Election in 2015.

- A decision was taken by the National Statistician to keep unchanged the way in which the Retail Price Index (RPI) is calculated. However, the Office for National Statistics (ONS) is to introduce a new measure of inflation to be known as RPIJ, but this will not be used as a basis for inflation-linked bond calculations. Historically RPI has been higher than the Consumer Price Index (CPI).

- The ONS reported that manufacturing (which represents more than 10% of the economy) fell by 0.3% in November (October -1.2%). This compared with consensus estimates of +0.5%.

- The FTSE 100 index ended the first trading week of the year up 3.8% at 6,121. This was the best start to a year since 1999. This level was last reached in May 2008.

- Parts of the retail sector came under pressure over the festive season with very poor figures from Marks & Spencers in strict contrast to excellent results from the John Lewis Partnership.

- The government has finally lost patience with the control of the UK's banks. The last straw appears to have been the LIBOR manipulation scandal together with the mis-selling of products. As a direct consequence a new framework has been introduced. It has been suggested that the mooted ring-fence round their non banking activities should be electrified! The banks may at last be forced to clear cheques in a timely manner. At long last.

- There remains continuing anger with regard to multi-national corporations and individuals setting up schemes specifically to reduce tax or avoid it altogether. Such "tax minimisation schemes" are coming under increasing scrutiny by the government. Indeed, a purge is taking place whereby fiscal havens like the Cayman Islands will have to show full fiscal transparency.

- The Society of Motor Manufacturers and Traders reported that slightly more than 2M new cars were registered in 2012 representing a 5.3% rise on 2011.

- For the fourth quarter of 2012 the rate of GDP growth fell by a most disappointing -0.3% compared with estimates of -0.1%. By comparison the third quarter GDP growth advanced by 0.9% in part due to the Olympic Games.

- For the quarter to November 2012 unemployment fell by 37,000 to 2.49M, the lowest level for 18 months. The unemployment rate inched back to 7.7% from 7.8%.

- Property developers are to be allowed to convert office buildings into blocks of flats without asking Councils for permission.

- Citizens appear to be coping with the grinding austerity conditions better than originally feared. Although there are marked differences from region to region.

- There are ambitious plans for the construction of a £4B London super sewer. But who will pay for it?

- The CPI measure for inflation in December was unchanged at 2.7% whilst the RPI measure rose to 3.1% from November's 3.0%.

- The ONS reported that retail sales volumes for the final quarter of 2012 fell by 0.6%. Scarcely surprising.

- It has been confirmed that Mark Carney, Governor of the Bank of Canada, is to be officially installed as the new Governor of the Bank of England on 1st July this year. Much is expected of him as he has an inspiring record in Canada.

- On 23rd January Prime Minister Cameron's landmark speech with regard to the European Union contained the following highlights:-

    - ❖ If the Conservative Party wins the next election it is intended to hold an "in or out" referendum by the end of 2017 with the hope that other EU members might offer the UK better terms in the meanwhile. In that regard, Angela Merkel, the German Chancellor, stated "we are naturally ready to discuss the British wishes, but one should bear in mind that other countries have their own wishes too"

    - ❖ The government proposes to construct a £32.7B high speed rail link (HS2) between London and the North of England claiming it to be vital to the country's future economic prosperity. This will indeed be a boost to a more efficient transport structure and at last enable the UK to compete with the main competitor rail links in Europe.

- On the 28th January, sterling hit its lowest level for more than 5 months against the US$ due to the better sentiment within the US economy versus that of the UK.

USA

- The rate of GDP growth in the final quarter of 2012 fell 0.1% against a consensus estimate of 1.1% growth. This upset was caused by federal defence spending and also business inventory accumulation – two notoriously volatile sectors. This time they had a negative 1.3% effect on growth. However, a 2.7% positive effect was achieved by a combination of strong returns from consumption, business investment and construction.

- New home sales advanced by 12.1% in December, the fastest pace since June 2008.

- President Obama was inaugurated for a second term of office on 21st January. You do have to wonder why the inauguration procedure is held so long after the election day which was back in November.

- The International Energy Agency predicts that the USA will become the largest producer of oil by 2030 and will overtake Russia and Saudi Arabia, thanks to the burgeoning production of shale oil.

- On 16th January, the Federal Reserve Board's Beige Book Survey reported growth right across the country with all the districts showing moderate levels of growth, thus producing a degree of momentum at the start of the year.

- Durable goods orders rose 4.6% in December. This was much better than expected.

- The Institute for Supply Management's manufacturing index for January advanced to 53.1 from 50.2 in December which was a much better result than expected.

Europe

- The German Bundesbank is planning to move 54,000 gold bars worth some $27B from Paris and New York to its headquarters in Frankfurt.

- Opinion polls in Germany are showing that Chancellor Angela Merkel's Christian Democrat coalition party (which includes the Christian Social Union party based in Bavaria) is gaining the strongest support since she was elected in 2005.

- In Italy, ex Prime Minister Silvio Berlusconi's pending court case is to go ahead. The verdict could be known before the general election day. Unfortunate timing for him you might think or hope.

- On 11th January, the European Central Bank, as expected, kept its interest rate on hold at ¾% and indicated no plans for further rate cutting in the medium term.

Japan

- The new Prime Minister, Shinzo Abe, has started the way he means to go on by pressurising the Bank of Japan to impose a 2% inflation target in the medium term. Indeed this policy has been successful as the Bank has recently agreed to change to the suggested target from its previous target of only 1.0%.

- Mr Abe has pledged $116B of fresh stimulus pending in an attempt to boost the nation's economic growth rate.

- In the year 2012 Japan's trade deficit nearly tripled to $77B.

- On the back of a weakening yen the equities of export companies have registered strong rises.

Asia/Pacific

- China's rate of GDP growth in the fourth quarter of 2012 was a very respectable 7.9% p.a.

- Chinese newspapers are battling with government censorship. As a result of the Press's increasingly powerful voice, further reform is likely. Not what Chinese political leaders have been used to.

- China's biggest export market was South East Asia. This grew by 20% in 2012. This underlines the importance of regional trade within Asia.

- China's trade surplus ballooned to $31.6B in December (November $19.6B). For 2012 as a whole the trade surplus was a staggering 50% higher than in 2011 at $231B. By way of contrast, Chinese exports to Europe in December were up 2.3% whilst those to the USA grew by 10.3%.

- The Beijing Water Authority is considering a bid for the UK's Sutton and East Surrey Water Utility. This appears somewhat bizarre, but many of the UK's utility companies are in foreign ownership.

- Earnings by China's leading industrial companies rose 17.3% in 2012 according to the government.

- On 29th January the Reserve Bank of India cut interest rates to 7.75% from 8.0%.

Conclusion

Global observations are as follows:-

In the UK

Adverse weather can be blamed for many things, but realistically it just could increase the likelihood of a triple dip recession.

With regard to the EU membership dilemma, will Cameron be able to forge a better and more advantageous deal with Germany and France remaining sufficiently supportive! Probably not. Needless to say the debate will run and run, even to 2017.

In the USA

President Obama's second term of office appears likely to be more successful than the first. Particularly if he can reach a successful agreement with the Republicans over the dreaded Fiscal Cliff. This seems likely to be resolved, but American debt levels will be a constant worry to future incumbents of the White House for many years to come unless much needed amendments can be made to the hallowed American Constitution. This seems unlikely to occur for many years. It seems probable that an invigorated Obama will be determined to concentrate far more on domestic issues, not the least of which will be to change the farcical laws on gun control.

All things considered it seems possible that America's rate of GDP growth may surprise on the upside.

In Europe

The Eurozone worries are less than they were, but they are still very real. For a successful conclusion (and it will take time) so much will continue to depend on the actions of the IMF, the ECB and the Bundesbank.

Angela's Merkel's re-election as Chancellor of Germany is not certain but it appears likely that she will be able to retain her post, albeit through a "grand coalition".

As always, Germany will continue to be the anchor economy of Europe and its major influence on economic growth.

In Japan

There is no doubt that the single most important influence on Japan's stock market and currency direction will be the ability of the newly appointed government lead by Shinzo Abe to live up to his prior and post election promises to deliver sufficient stimulation to the down trodden and moribund economy and also to impose much stronger control of the Bank of Japan in order for it to concentrate far more on economic growth and to allow inflation to increase. In the past there have been so many political false dawns. Will it be any different this time? Or is the nation in the last chance saloon? The stock markets suggest that the outlook is better than it has been for many years and is encouraged over prospects for Japan's leading exporters and the economy as a whole which should be enhanced by a weaker yen.

In Asia/Pacific

China will almost certainly continue along the course of becoming a greater influence on the global scene. Indeed, it is only a matter of time before it becomes one of the largest and most influential economies. It appears likely that the new leadership will continue in much the same vein as the previous leadership who were able to manage an enviable rate of GDP growth and also to exercise control of the renminbi currency. No mean achievement for a nation as large as China. One area of concern is the growing pains that the nation might experience, particularly with regard to its large population and its preparedness to accept the current political dictats. As mentioned, there have been signs of public unrest including protest meetings. The new regime under Xi Jinping will have to tread carefully in that regard. Chinese companies will likely continue with foreign takeovers. Very recently, China acquired Manganese Bronze the famous London black cab company.

Elsewhere in the Asia/Pacific region, most countries are experiencing strong economic growth accompanied by healthy levels of trade. India is one of the exceptions with its government finding it difficult to maintain the strong rates of GDP growth. The country desperately needs to build a more modern transport infrastructure.

In General

The World Economic Forum in Davos came up with the usual platitudes and voicing of co-operation – but how effective they will be remains to be seen.

In the IMF's global economic outlook it estimates an acceptable rate of world economic growth in 2013 of 3.5%. Its country estimates includes growth in the UK of 1.0% with that of the Eurozone to be down 3.5%.

At long last Hedge Fund fee structures have increasingly become under the microscope with pressure to make reductions to a more realistic level. Not before time.

As so often happens after a strong market run, it is inevitably followed by a correction the timing and size of which is hard to deduce. However, in the current case, when the correction occurs, and it surely will, the downside is likely to be limited to an extent by investors who missed the recent market surge and will now attempt to get on board at lower levels. Whatever transpires it still seems safe to predict that, by the calendar year end, equities will have markedly outperformed fixed interest. They should also outperform corporate bonds and index linked, but to a lesser extent.

The outlook for other asset classes remains the same as described in my quarterly report for the quarter ended 31st December 2012. What has changed since then is the possibility of an increased number of corporate mergers and acquisitions.

In sum, a position of full investment appears justified at this time.

Valentine Furniss
6th February 2013

BRENT COUNCIL	**Pension Fund Sub-Committee** 26 February 2013 **Report from the Deputy Director of Finance**
For action	Wards Affected: ALL
Statement of Investment Principles review	

1. SUMMARY

1.1 To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Brent Pension Fund's Statement of Investment Principles (SIP) must be reviewed and, if necessary, revised from time to time.

1.2 This has most recently been prompted by a request from the Health Partnerships Overview and Scrutiny Committee at their meeting of 18 July 2012 for the Brent Pension Fund Sub-Committee to reconsider the Fund's approach to investments in tobacco firms.

1.3 At the last Pension Fund Sub-Committee meeting of 20 November 2012, it was agreed that the Fund's Statement of Investment Principles should be amended to state that no direct investments would be made in tobacco firms but that the appointed fund managers should not be fettered in their management of indirect or pooled investments – see paragraphs 36 to 38 under the heading 'Responsible Ownership' in the attached Appendix 1.

2. RECOMMENDATION

2.1 That the updated Statement of Investment Principles be approved.

3. DETAIL

3.1 The requirement for administering authorities to prepare, maintain and publish Statements of Investment Principles (SIP) was introduced in January 2000 by Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. Later, in August 2002, administering authorities were further required to state the extent to which they complied with the investment principles recommended in the Myners review of institutional investment in the UK, which set out best practice in shareholder responsibilities. The most recent legislative requirements are covered by Regulation 12(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. A revised draft of the SIP is attached as Appendix 1 for approval.

4. FINANCIAL IMPLICATIONS

4.1 None.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None

8. BACKGROUND

8.1 Report to the Pension Fund Sub-Committee of 20 November 2012 entitled 'Brent Pension Fund - socially responsible investment'.

9. CONTACT OFFICERS

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

MICK BOWDEN	**ANTHONY DODRIDGE**
Deputy Director of Finance	**Head of Exchequer and Investment**

Appendix 1

LONDON BOROUGH OF BRENT PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Investment responsibilities

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

a) determining the overall investment strategy and strategic asset allocation

b) appointing the investment managers, the Independent Adviser and the Actuary

c) reviewing investment manager performance and processes regularly.

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

3 The Pension Fund Sub-Committee takes proper advice from persons who are reasonably believed to be qualified by their ability in and practical experience of investment matters to enable them to fulfil their overall responsibility for the management of the Fund and its investment strategy, and individual decisions about investments.

4 The Director of Finance at Brent Council is responsible for:

a) advising and reporting to the Pension Fund Sub-Committee

b) reviewing the activities of the investment managers on a regular basis

c) keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

5 The investment managers are responsible for:

a) the investment of Pension Fund assets in accordance with legislation, the Statement of Investment Principles (SIP) and the individual investment management agreements

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

6 The Actuary is responsible for:

a) undertaking a triennial revaluation of the assets and liabilities of the Fund

b) providing annual FRS17 / IAS19 valuations

c) providing advice on the maturity of the Fund.

7 The Independent Adviser is responsible for the provision of advice to the Pension Fund Sub-Committee and the Director of Finance on all investment issues, in particular asset allocation, new developments and the monitoring of manager performance against the agreed benchmarks.

Risk and liabilities

8 There are three main definitions of risk:

a) severe market decline and funds losing value (absolute risk), as occurred in 2008

b) underperformance when compared to a peer group (WM local authority universe) or relevant stock / bond markets (relative risk)

c) not meeting the liabilities set out in the LGPS. The Fund had a deficit of £294m when valued in 2010, and is following a 25-year recovery period.

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

10 To add value, the Fund seeks exposure to a variety of risks and associated risk premia. The search for outperformance will, on occasions, involve the risk of underperformance through the adoption of counter-cyclical positions. The extent of any underperformance, through relative risk, has been reduced by diversification and the use of index-tracking with regard to publicly quoted equities.

11 The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways. First, to enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, reinvest income from dividends or interest received. Second, assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the Fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met. Third, the Brent Pension Fund is mature, there being many more pensioners than working members - to the extent that 61% of assets are 'owned' by pensioner liabilities. Therefore, there is a need to consider the risks involved in pursuing a long-term equity-based strategy when a market correction, and lower dividend payments, could reduce the value of the Fund. There is currently a 'mismatch' between the allocation of around 85% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the Fund. However, this is balanced by the expectation that equities will generate additional returns to facilitate the payment of both pensioners' and active members' benefits. Contributions from employers and employees are calculated on the basis that they will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to reinvest income and change their stock selections without concern about the need to realise assets quickly. However, most assets are liquid and invested in recognised stock exchanges.

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

Investment objectives

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

a) UK equities – to match the FTSE All Share index

b) overseas equities (developed markets) – to match the FTSE All World ex UK Index

c) overseas equities (emerging markets) – to outperform the FTSE AW All emerging index by 2% per annum over rolling three year periods

d) fixed income – Horizon Total Return Bond Fund – to achieve a return of 6% per annum over rolling three year periods

d) UK Small companies – to outperform the FTSE Small Cap index by 2% per annum

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

f) private equity – to achieve an average absolute return of 8% per annum over the life of the Fund

g) fund of hedge funds – to achieve an average return of LIBOR plus 5% per annum

h) infrastructure – to achieve an average absolute return of 8% per annum, comprising both income and capital growth

i) diversified growth fund – to achieve a return of Base Rate plus 3.5% per annum over rolling three years periods.

14 The achievement of these targets should attain a real rate of return of 4% - 5% above inflation per annum over rolling three-year periods (see asset allocation for returns expected from each market). The 2010 Actuarial Valuation assumed a return of gilts plus 3% per annum, giving a total return of 7.5% per annum.

Asset allocation

15 Four general points should be noted. First, LGPS regulations require that funds achieve 'proper diversification', which may be considered in terms of ensuring that investments are spread through a number of markets whose movements are not closely correlated. This affords some protection in the event of market corrections, and allows gains from a variety of sources. Second, equities have been the best performing asset class over the very long term, property has performed well over ten years but has tended to be slightly behind equities, whereas bonds and cash have usually performed less well. Third, exposure to fixed income provides increased certainty of returns for a mature fund. Fourth, exposure to other asset classes adds to diversification and allows additional returns in less well researched markets. The Myners' report advocated that funds should consider all the main asset classes in setting its asset allocation, allowing the Fund access to different risk premia (such as time, currency and different asset valuations).

16 The asset allocation adopted for the Fund is as follows:

Asset Class	**Percentage of Fund %**	**Expected Return p.a. %**	**Benchmark**
UK equities	13	6 – 9	FTSE All Share
UK small companies	4	6 – 9	FTSE Small Cap ex IT
O/seas equities – dev.	22	6 – 9	FTSE AW ex UK
O/seas equities - EM	8	6 – 9	FTSE AW - Emerging
Fixed income	15	6	Absolute return
Diversified growth	8	5 – 8	Base Rate + 3.5%
Property	8	5 – 8	IPD and absolute return
Private equity	10	8	Absolute return
Hedge funds	5	5 – 8	LIBOR + 5%
Infrastructure	6	8	Absolute return
Cash	1	0 – 3	Cash

17 For UK equities, the manager holds stocks in proportion to their weighting in the FTSE All share Index (known as index tracking, or passive, management). Index tracking has been chosen because the average manager has, in the longer term underperformed the UK index, and passive management is less expensive than active management. For overseas equities (developed markets), the manager tracks the appropriate index. Active management has been chosen for exposure to overseas equities (emerging markets) and UK small companies, because there are opportunities for the manager to outperform through stock and sector selection. For fixed income, the manager has discretion to change the asset allocation, using other bond-like instruments as permitted. Active management has been chosen to allow opportunities for improved performance through stock selection and asset allocation. For fixed income, property, emerging markets, UK small companies, hedge funds, infrastructure, diversified growth and private equity, the Fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

18 Asset allocation is reviewed regularly to consider new opportunities that may arise. The expected returns detailed above are taken from forecasts made by the actuary and investment managers. It is anticipated that equities will not outperform by the same margins seen in the twenty-year period 1980 – 1999, but it is expected that the asset class will (over the long term) outperform gilts. The next major review of asset allocation is expected to be in 2014, but allocations will be considered at least annually.

Investment manager arrangements

The current fund managers are:

UK equities	Legal & General Investment Management
Overseas equities	Legal & General Investment Management (developed markets), Dimensional Fund Managers (emerging markets)
Fixed income	Henderson Global Investors
Property	Aviva Investors
UK smaller companies	Henderson Global Investors
Private equity	Capital Dynamics
	Yorkshire Fund Managers
Fund of hedge funds	Fauchier Partners
Diversified growth fund	Baillie Gifford
Infrastructure	Alinda Partners
	Henderson PFI Fund II
	Capital Dynamics

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

Investment restrictions

20 LGPS investment regulations state that the administering authority shall have regard both to the diversification and the suitability of investments. These were amended in 2003 to allow each fund more discretion over investment policy by allowing a range of limits within an overall ceiling. The Pension Fund Sub-Committee has decided that the Brent Fund may not:

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

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

c) excluding loans to the Government, lend more than 10% of the value of the Fund to any one borrower

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

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

21 The reasons for this approach are:

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

b) return opportunities – the Brent Pension Fund has committed 10% of assets to private equity through partnerships, 6% to infrastructure and 5% to fund of hedge funds.

22 Asset allocation decisions are regularly reviewed and the suitability of the limits will be subject to reconsideration at least every three years as part of the asset allocation review.

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

a) invest in any in-house fund without prior consent

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

c) borrow

d) engage in underwriting or sub-underwriting on behalf of the fund

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

24 Managers may use derivatives to facilitate asset allocation decisions and trading, and to obtain exposure to markets / assets, to reduce trading costs. All open and completed transactions will be included in monthly transactions and quarterly reports. Managers may also lend stock to generate additional income for the Fund.

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

Manager discretion

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

Performance measurement – managers, adviser and trustees

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

28 WM Performance Services is an independent performance monitoring agency that measures the performance of the Fund and the individual managers against both the benchmark and peer group funds. Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms in relation to their benchmark over a 'substantial' period (defined as two years), a review of the mandate will be considered.

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

30 The Pension Fund Sub-Committee will review the performance of the Fund's Independent Adviser on a triennial basis, looking at the quality of advice and inputs made.

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

Review of the implementation of investment policy

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

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

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

b) Past performance, including spread of results and volatility

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

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

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

f) Professional judgement.

34 A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent underperformance over a two-year period would automatically place the manager's mandate under review.

Responsible ownership

35 The Pension Fund Sub-Committee has instructed its managers to exercise the Fund's responsibility to vote on corporate governance issues wherever possible. They have also been instructed to intervene in companies that are failing and thus jeopardising the Fund's interests, by voting or by contacting company management direct. All managers adopt the Council of Insititutional Shareholders' Committee Statement of Principles on 'The Responsibilities of Institutional Shareholders and Agents'. Managers do not make moral judgements on individual stocks.

36 The Brent Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk. However, the Fund recognises that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities. The Fund has delegated to the external investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments.

37 Each investment manager is asked to work positively with companies to promote forward-looking social, environmental and ethical standards. This should not, however, deflect from the primary objective of achieving the best possible financial return for the Fund, in accordance with the Fund's fiduciary duty.

38 In line with the above, fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products, due to the risk that tobacco companies may face large liabilities from outstanding court actions.

Learning and development for councillors and officers

39 Councillors have agreed steps to support the learning and development of members of the Pension Fund Sub-Committee. In particular, there will be regular training opportunities through online packages or training sessions before Sub-Committee meetings. To date, there have been learning and development presentations on such items as the actuarial valuation, emerging market equity, overseas equity, private equity and fixed income investment.

Representation

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

Communication

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

a) a website
b) annual benefit statements to active members and deferred pensioners
c) regular newsletters for active members and pensioners
d) employer updates on Fund developments and scheme changes
e) A Funding Strategy Statement, setting out how the Fund plans to meet future liabilities
f) Annual reports are available on the website for both employers and employees
g) Induction material for new employees and pre-retirement courses.

42 It is also considered to be important that stakeholders are aware of the service standards set for responses by both Brent Council and Capita (Employee Benefits), the Council's pensions administration provider. The following service standards should be expected:

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

Treasury policy

43 The Pension Fund maintains cash balances both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit cash balances with the Council's banker, NatWest, at an appropriate rate.

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

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Agenda Item 13

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