



Brent

Brent Pension Fund

Tuesday 25 June 2013 at 6.30 pm

Committee Room 4, Brent Town Hall, Forty Lane,
Wembley, HA9 9HD

Membership:

Members

Councillors:

S Choudhary (Chair)
Crane (Vice-Chair)
Arnold
Mrs Bacchus
Brown
Hashmi
BM Patel

first alternates

Councillors:

Hirani
Harrison
Mitchell Murray
Oladapo
Lorber
CJ Patel
HB Patel

second alternates

Councillors:

Hossain
Hector
Gladbaum
Daly

Baker

Non Voting Co-opted Members

George Fraser
Ashok Patel

Employees
College of North
West London

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

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:

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

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item **Page**

1 Declarations of personal and prejudicial interests

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

2 Minutes of the previous meeting 1 - 6

3 Matters arising

4 Deputations (if any)

5 Presentation on alternative indices by Legal & General

6 Monitoring report on fund activity for the quarter ended 31 March 2013 7 - 16

This report provides a summary of the Fund's activity during the quarter ended 31 March 2013. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter.

Ward affected: All Wards **Contact Officer:** Mick Bowden, Deputy Director of Finance

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

7 Brent Pension Fund accounts for 2012/13 17 - 56

This report introduces the draft Pension Fund accounts for 2012/13.

Ward affected: All Wards **Contact Officer:** Mick Bowden, Deputy

Director of Finance
Tel: 020 8937 1460
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8 Statement of Investment Principles review (to follow)

Ward affected: All Wards **Contact Officer:** Mick Bowden, Deputy
Director of Finance
Tel: 020 8937 1460
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9 Proposal to appoint a global custodian (to follow)

Ward affected: All Wards **Contact Officer:** Mick Bowden, Deputy
Director of Finance
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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 Tuesday, 24 September 2013 at 6:30pm in the Boardroom, Brent Civic Centre.

12 Exclusion of press and public

The following report is not for publication as it contains a category of exempt information as specified in Schedule 12A of the Local Government (Access to information) Act 1972, namely;

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

13 Fund of Hedge Funds mandate - Fauchier Partners

57 - 60

The report reviews the fund of hedge funds mandate managed by

Fauchier Partners.



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 February 2013 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Mrs Bacchus, Mitchell Murray, Hashmi, BM Patel, Harrison, George Fraser and Ashok Patel.

Apologies for absence were received from: Councillors Crane and Brown

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

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 20 November 2012 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Presentation by Baillie Gifford**

Mr Tom Wright and Mr Chris Murphy, representatives from Baillie Gifford (Diversified Growth Fund Manager) gave a presentation on their performance. Mr Tom Wright informed the Sub-Committee that the current estimate of capacity for their Diversified Growth Fund was £5billion and that the guiding principle of the Diversified Growth Fund was to close the Fund well before it reached its capacity. This was to ensure that Baillie Gifford maintained flexibility in asset allocation as well as retain some capacity for existing clients to make further investments. Mr Wright added that with that principle in mind, the Fund would close to new business enquiries from the end of February 2013.

Members sought the views of the representatives on gold as an asset class and the level of gold holdings in the portfolio. Chris Murphy responded that gold was relatively expensive as an asset class and whilst it was mainly held as a form of insurance, it constituted than less 5% of its portfolio. Councillor Mrs Bacchus enquired about the risk level of the Diversified Growth Fund investment product in

comparison to, say, global equities. Tom Wright explained that the Baillie Gifford Diversified Growth Fund offered an equity-like return but with a lower volatility risk level.

Members heard from Chris Murphy that since inception in June 2012, Brent Pension Fund's initial investment of £27million had grown to £28.547million (5.7%) due to positive performance over the period mainly from emerging market bonds and high yield bonds. This contrasted with listed equities which had negative returns mainly as a result of the level of exposure to volatility in the US stock market. Although Chris Murphy cautioned that the double digit annualised performance was not sustainable over a longer term due to a wide range of possible outcomes for financial markets, he added that by investing across a wide range of assets, Ballie Gifford expected continued moderate global growth.

RESOLVED:

that the presentation on the performance of Ballie Gifford be noted.

6. Presentation by Dimensional

Akbar Ali, Christopher Morgan and Nicholas Evans, representatives from Dimensional, Emerging Market Fund Managers gave a presentation on the emerging markets performance to the Sub-Committee. They gave an overview of the geographical distribution of their global investments adding that despite strong performance the fund performed below benchmark level. Members noted that the initial investment of £35million which fell to £25.896million in 2011 due to state of the then financial markets, had recovered to £33.09million by February 2013.

In analysing the investment climate of the emerging markets, members heard that Dimensional were investing across diversified markets and that the best performing market for the quarter was Turkey which experienced its first investment grade rating in almost two decades, followed by Egypt despite its political unrest. In setting out the emerging markets equity climate, they stated that strong performance of the Chinese stocks helped emerging market of Asia to provide the strongest contribution across the emerging market region. It was also noted that for 2012, there was a significant size premium with small caps out-performing large caps by 4.43%. In response to a member's enquiry, the Sub-Committee heard that Dimensional Emerging Market Fund would achieve the benchmark, judging by the encouraging news about recent performance.

RESOLVED:

that the presentation on the performance of Dimensional Emerging Market Fund be noted.

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

The Sub-Committee considered a report that provided a summary of the Fund's activity during the quarter ended 31 December 2012 and examined the actions taken, the economic and market background, and investment performance.

Anthony Dodridge, Head of exchequer and Investments informed members that the Fund had 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 increase in performance had continued into January 2013. He attributed the strong performance 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%.

The Head of Exchequer and Investments explained that the Fund return of 2.6% represented an underperformance when compared to the WM Local Authority average fund return of 2.9% for the quarter. This was 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. He drew members' attention to the asset allocation table compared to the benchmark and pointed out that Dimensional and Baillie Gifford Funds were both under invested. The Head of Exchequer and Investments recommended that £8million of the monies recalled from Fauchier, following a decision by the Sub-Committee on 25 September 2012, be split between the two funds. Valentine Furniss, the Independent Adviser endorsed this recommendation

Valentine Furniss, the Independent Adviser gave an overview of the UK and global markets. Members heard that the Chancellor of Exchequer's revenue from 4GEE broadband which was far below his expectations would have an impact on the budget, thus the likelihood of the austerity programme being extended for a couple of years. In respect of the US economy, he emphasised the need for a fundamental amendment to the American Constitution that would provide a lasting solution to the fiscal cliff. He pointed out that the IMF's global economic outlook had estimated an acceptable rate of world economic growth in 2013 of 3.5%.

The Independent Adviser predicted that, by the calendar year end, equities would have markedly outperformed fixed interest and corporate bonds and with a possibility of an increased number of corporate mergers and acquisitions. He continued that with poor returns on cash and gradual recovery on property but good yields on emerging markets and equities, he endorsed the recommendation to re-allocate funds to Baillie Gifford and Dimensional to increase the level of the Fund's investment

RESOLVED:

- (i) that the investment report be noted.
- (ii) that an additional £8m funds split equally between Baillie Gifford and Dimensional Emerging Market Fund be approved.

8. **Statement of investment principles review**

The Sub-Committee considered a report that provided 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.

In setting the background to the report, Anthony Dodridge, Head of Investments and Exchequer informed members that the review was prompted most recently 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.

He reminded the Sub-Committee about its decision at its last meeting 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. The Head of Exchequer and Investments informed members that Brent Pension Fund had delegated to the external investment managers the responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments. In reiterating the recommendation for approval the Head of Exchequer and Investments drew members attention to the appendix attached to the report, paragraphs 36 to 38 under the heading 'Responsible Ownership'.

RESOLVED:

that the updated Statement of Investment Principles be approved.

9. **Any other urgent business**

None.

10. **Date of next meeting**

The date of next meeting will be confirmed at the Annual meeting of the Council in May 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 a category of exempt information as specified in Schedule 12A of the Local Government (Access to information) Act 1972, namely;

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

12. **Actuarial contract**

The Sub-Committee received a report which outlined the recent changes in the Fund's actuary and confirmed that the targeted cost savings had been achieved.

RESOLVED:

that the report be noted.

13. **Review of asset allocation**

The Sub-Committee considered a report which outlined the recent changes made to the Fund's investment strategy with a view to identifying an optimal asset allocation to obtain the best investment returns within the context of acceptable risk parameters.


RESOLVED:

- (i) that the Brent Pension Fund's past investment performance relative to some of the top performing LGPS funds be noted;
- (ii) that the recent actions taken to improve the Fund's investment returns be noted;
- (iii) that the proposed revisions to the Fund's asset allocation as outlined in the report from the Deputy Director of Finance be approved.

The meeting closed at 8.30 pm

S CHOUDHARY
Chair

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 Brent	<p style="text-align: center;">Pension Fund Sub-Committee 25 June 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance</p>
For Information	Wards Affected: ALL
Monitoring report on fund activity for the quarter ended 31 March 2013	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2013. 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 £40.9m from £501.0m to £541.9m, and the Fund's return of 7.5% outperformed its quarterly benchmark of 6.4%. The strong performance can be attributed to results in Overseas Equities, UK Smaller Companies Equities, UK Equities, Infrastructure, Private Equity, Emerging Market Equities, Diversified Growth, Fund of Hedge Funds and Fixed Income which all delivered positive returns ranging from 1.6% to 13.2%. Whilst Property continues to achieve a negligible return, the longer term asset classes of Infrastructure and Private Equity have both delivered improved underlying performances.
- b) The positive performance for the quarter ended 31 March 2013 has continued during the months of April and May 2013, where the Fund has continued to increase in value by an estimated £16.0m.
- c) It should be noted that the Fund return of 7.5% represents an underperformance when compared to the WM Local Authority average fund return of 9.0% 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. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 31 March 2013

- 3.1 During the quarter ended 31 March 2013, equity markets were boosted by positive macroeconomic data which pointed to an improvement in the global economy. This encouraged investors to focus on the value offered by equities versus other asset classes. The banking bail-out in Cyprus dented sentiment to some extent but on the whole investors are becoming more tolerant about the continuing troubles of the Eurozone.
- 3.2 An investment update for the period since March 2013, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

- 3.3 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 31 March 2012	Period ended 31 March 2013
1 year	98 th	85 th
3 years	98 th	97 th
5 years	100 th	100 th

- 3.4 The comparative statistics show that the Fund has been one of the lower performing LGPS funds which has been consistently underperforming for a number of years
- 3.5 However, the Brent Pension Fund has benefited from a significant improvement in investment returns during the financial year ended 31 March 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 98th to 85th percentile. Whilst this progress is encouraging, efforts will be made to further build on this improved performance to ensure that it continues over the coming year.

Table 1: Asset allocation as at 31 March 2013 compared to the benchmark

Market (1)	Market Value 31/3/13 £M (2)	Market Value 31/3/13 % (3)	WM LA Average 31/3/13 % (4)	Fund Benchmark 31/3/13 % (5)	Market Value 31/12/12 £M (6)	Market Value 31/12/12 % (7)	WM LA Average 31/12/12 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	82.9	15.3	17.6	15.0	81.6	16.3	18.6
Equities							
UK – Legal & General	78.0	14.4	24.4	13.0	70.8	14.1	26.2
UK - Small Companies Henderson	21.4	3.9	*	4.0	19.0	3.8	*
O/seas – developed Legal & General	124.7	23.0	32.9	22.0	108.1	21.6	30.6
O/seas – emerging Dimensional	36.9	6.8	5.7	8.0	31.3	6.2	6.0
Property							
Aviva	33.3	6.1	6.8	8.0	33.5	6.7	6.7
Private Equity							
Capital Dynamics	66.6	12.3	4.1	10.0	61.1	12.2	4.0
Yorkshire Fund	1.2	0.2	*		1.3	0.3	*
Hedge Funds							
Fauchier	27.2	5.0	2.3	5.0	41.2	8.2	2.0
Infrastructure							
Alinda	16.6	3.1	1.0	6.0	15.3	3.0	0.9
Capital Dynamics	12.7	2.4	*		8.4	1.7	*
Henderson PFI Fund II	0.9	0.2	*		1.1	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	34.0	6.3	2.0	8.0	28.5	5.7	1.5
Cash							
	5.5	1.0	3.2	1.0	-0.2	0.0	3.5
Total	541.9	100.0	100.0	100.0	501.0	100.0	100.0

3.6 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, £8.0m of cash was invested equally between Baillie Gifford’s Diversified Growth Fund and the Dimensional Emerging Market Fund to more closely align the actual investment exposures to their long-term strategic allocations.

Asset allocation of the Fund

3.7 The WM Local Authority average asset analysis for the quarter ended 31 March 2013 shows increased allocations into the following asset classes:

Asset class	Increase in percentage allocation
Overseas Equities	+2.3%
Diversified Growth	+0.5%
Hedge Funds	+0.3%
Property	+0.1%
Infrastructure	+0.1%
Private Equity	+0.1%

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	-1.8%
Fixed Income	-1.0%
Emerging Market Equities	-0.3%
Cash	-0.3%

3.9 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31 March 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31/3/13			Year Ended 31/3/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	1.6	1.5	3.8	8.9	6.0	10.5	Absolute return 6% p.a.
Equities							
UK – Legal & General	10.4	10.4	10.9	17.5	17.5	18.0	FTSE All share
UK - Small Companies Henderson	12.7	11.0	n/a	26.2	28.0	n/a	FTSE Small Cap
O/seas – developed Legal & General	13.2	13.2	13.8	15.8	15.8	17.5	FTSE Dev World ex UK
O/seas – emerging Dimensional	5.3	5.4	7.5	6.8	8.0	10.5	MSCI Emerging Markets
Property							
Aviva	-0.5	1.1	1.3	0.3	3.8	2.8	IPD All Properties Index
Private Equity							
Capital Dynamics	5.8	2.0	6.7	9.8	8.0	11.8	Absolute return 8% p.a.
Yorkshire Fund Managers	-1.5	2.0	*	-6.0	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	4.4	1.4	5.0	6.5	5.5	7.3	LIBOR + 5% p.a.
Infrastructure							
Alinda	8.3	2.0	3.9	8.6	8.0	6.1	Absolute return 8% p.a.
Capital Dynamics	6.5	2.0	*	13.7	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	-0.6	2.0	*	-2.4	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	5.0	1.0	6.1	10.8	4.0	9.9	Base Rate + 3.5% p.a.
Cash							
	0.2	0.1	0.7	0.6	0.5	2.8	Base Rate
Total	7.5	6.4	9.0	12.0	11.0	13.8	

3.10 The Fund's overall return of 7.5% outperformed its quarterly benchmark of 6.4%. Infrastructure, Diversified Growth, Private Equity, Fund of Hedge Funds, UK Smaller Companies Equities and Fixed Income outperformed their respective benchmarks, whilst Property and Emerging Market Equities underperformed against their benchmarks.

- 3.11 The Fund outperformed the WM Local Authority average in the asset class of Infrastructure. The Fund underperformed the WM Local Authority average in the asset classes of Emerging Market Equities, Fixed Income, Property, Diversified Growth, Private Equity, Fund of Hedge Funds, Overseas Equities and UK Equities.
- 3.12 Over one year, the Fund return of 12.0% when compared to its benchmark of 11.0% equated to a net outperformance of 1.0%. Diversified Growth, Fixed Income, Private Equity, Fund of Hedge Funds and Infrastructure performed well over the period and outperformed their benchmarks. Property, UK Smaller Companies Equities and Emerging Market Equities underperformed their benchmarks. However, the Brent Fund's return of 12.0% has underperformed when compared to the WM Local Authority average fund return of 13.8%, mainly due to the strongly positive performance of publicly quoted UK and Overseas Equities for which Brent has a lower proportionate exposure, given its relatively higher investment in Alternative assets.

Indicative performance of the Fund since March 2013

- 3.13 Following a strongly positive quarter ended 31 March 2013, the Fund has continued to increase in value by an estimated £16.0m:

	As at 31 May 2013 £M	As at 31 March 2013 £M	Movement
Fixed Income			
Henderson	82.9	82.9	=
Equities			
UK - Legal & General	83.9	78.0	↑
UK - Small Companies Henderson	22.2	21.4	↑
O/seas – developed Legal & General	133.6	124.7	↑
O/seas – emerging markets Dimensional	36.1	36.9	↓
Property			
Aviva	33.3	33.3	=
Private Equity			
Capital Dynamics	66.6	66.6	=
Yorkshire Fund Managers	1.2	1.2	=
Hedge Funds			
Fauchier	28.0	27.2	↑
Infrastructure			
Alinda	16.6	16.6	=
Capital Dynamics	12.7	12.7	=
Henderson PFI Fund II	0.9	0.9	=
Pooled Multi Asset			
Baillie Gifford DGF	34.1	34.0	↑
Cash			
	5.8	5.5	↑
Total	557.9	541.9	↑

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

Henderson Investors – March 2013 quarter report
Legal & General – March 2013 quarter report
Fauchier Partners – March 2013 quarter report
Dimensional Asset Management – March 2013 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 Investment Advisor
Update for April and May 2013**

The pattern of rising **equity market** in the first quarter was maintained overall during April and May, although Pacific Basin and Emerging Markets equities lost ground. The following Table shows market movements since end-March and since end-2012.

	Capital return (in £, %) to 31.05.13		
Weight %	Region	2 months	5 months
100.0	FTSE All-World Index	+2.2	+15.8
50.9	FTSE All-World North America	+3.6	+21.3
8.4	FTSE All-World Japan	+2.6	+21.4
12.5	FTSE All-World Asia Pacific ex Japan	- 2.1	+5.9
16.6	FTSE All-World Europe (ex-UK)	+ 3.3	+12.7
8.0	FTSE All-World UK	+ 2.7	+11.8
10.1	FTSE All-World Emerging Markets	- 2.2	+ 2.7

[Source: FTSE All-World Review, May 2013]

Equities had been advancing steadily until May 22nd, when minutes from a Federal Reserve meeting showed that some members of the committee were envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economic recovery gathered pace. While not new, this reminded markets that the buoyancy of markets was partly due to the massive injections of liquidity by Central Banks. In response, equities retreated sharply the next day, with Japan losing 7% and most other markets 2 – 3%, and continued to drift lower for the rest of the month. Another factor in this fall had been weaker than expected economic data from China, in the form of their Purchasing Managers' Index.

Advances in equities have been evenly spread – no industrial sector gained more than 5%, while Oil & Gas and Basic Materials remained among the laggards as forecasts for growth in China were scaled back.

Bond markets also reacted negatively to the May 22nd news from the Fed, and by the end of May 10-year sovereign bond yields were about 25bps above their end-March levels, as shown in this Table.

10-year government bond yields (%)			
	Dec 2012	Mar 2013	May 2013
US	1.76	1.85	2.17
UK	1.85	1.78	2.03
Germany	1.32	1.29	1.51
Japan	0.79	0.57	0.86

[Source: Financial Times]

The rise in Japanese bond yields from exceptionally low levels caused sharp losses in the shares of regional Japanese banks, who are big holders of Japanese government bonds. Meanwhile in the United States, the interest rate payable on mortgages has risen noticeably because of the combined effect of higher Treasury yields and higher lending margins.


The main feature of the **currency** markets has been the continuing decline of the Yen against all other major currencies, as the highly stimulative monetary policy of the Bank of Japan begins to be implemented. The yen crossed the psychologically significant level of 100 per \$ in May.

	31.03.13	31.05.13	£ move
\$ per £	1.518	1.516	- 0.1%
€ per £	1.182	1.170	- 1.0%
¥ per £	142.8	153.1	+ 7.2%

Among **commodities**, gold has fallen sharply – from almost \$1600/oz to just above \$1400/oz in the past two months, while the prices of both copper and oil have declined on signs that China's rate of growth this year will be slower than previously expected.

Peter Davies
June 9th, 2013

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 Brent	Pension Fund Sub-Committee 25 June 2013 Report from the Deputy Director of Finance
For Information	Wards Affected: ALL
Pension Fund Accounts 2012/13	

1. SUMMARY

1.1 This report introduces the draft Pension Fund accounts for 2012/13.

2. RECOMMENDATION

2.1 Members are asked to note the accounts.

3. DETAIL

3.1 The accounts have been prepared to meet the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* (the Code) governing the preparation of the 2012/13 financial statements for Local Government Pension Scheme funds.

3.2 The accounts (which are unaudited) aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013.

3.3 The main items to note are as follows:

- The value of contributions to the Fund rose in 2012/13 as a result of increased employer contribution rates, although this may not continue in future years given declining staff numbers.
- The value of benefits payable (pensions and lump sums) has remained broadly unchanged in 2012/13. While the value of pensions paid has risen to reflect both price inflation and additional pensioners, this has been offset by a corresponding fall in lump sums paid.
- Contributions into the Fund continue to exceed pension payments out of the Fund, leaving a surplus of £6.7m (2011/12: £5.4m) to invest in order to meet the Fund's future pension liabilities.

- Global stock markets delivered strongly positive investment returns and the net return on investments in 2012/13 was £47.3m (2011/12: -£1.8m).
- Overall, the Fund's net assets at 31 March 2013 have increased to a new all-time high of £547.9m (31 March 2012: £493.9m).

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

Local Government Pension Scheme Fund Accounts 2012/13 \ example accounts and disclosure checklist – February 2013 CIPFA

Pension Fund Sub-Committee – Pension Fund Accounts 2011/12 – 26 June 2012

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

APPENDIX

Brent Pension Fund Account		2011/12	2012/13
	Notes	£'000	£'000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(41,663)	(43,782)
Transfers in from other pension funds	8	(2,152)	(1,361)
		(43,815)	(45,143)
Benefits	9	34,292	34,172
Payments to and on account of leavers	10	3,132	3,283
Administration expenses	11	1,013	954
		38,437	38,409
Net (additions)/withdrawals from dealings with members		(5,378)	(6,734)
Returns on investments			
Investment income	12	(8,236)	(3,450)
(Profits) and losses on disposal of investments and changes in the market value of investments	14a	7,477	(45,240)
Investment management expenses	13	2,599	1,438
Net return on investments		1,840	(47,252)
Net (increase)/decrease in the net assets available for benefits during the year		(3,538)	(53,986)

Net Assets Statement	Notes	31 March	31 March
		2012	2013
		£'000	£'000
Investment assets	14	484,824	538,297
		484,824	538,297
Current assets	19	8,955	8,660
Non current assets	20	1,921	1,357
Current liabilities	21	(1,803)	(431)
Net assets of the fund available to fund benefits at the period end		493,897	547,883

Notes to the Brent Pension Fund accounts

1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Brent Council. The Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Brent Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies within the borough area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Brent Pension Fund Sub-Committee, which is a committee of Brent Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Brent Pension Fund include:

- Scheduled bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 61 employer organisations within the Brent Pension Fund including the Council itself, as detailed below:

Brent Pension Fund	31 March 2012	31 March 2013
Number of employers with active members	53	61
Number of employees in scheme		
Brent Council	4,467	4,091
Other employers	931	1,282
Total	5,398	5,373
Number of pensioners		
Brent Council	5,402	5,381
Other employers	571	669
Total	5,973	6,050
Deferred pensioners		
Brent Council	6,187	6,749
Other employers	707	374
Total	6,894	7,123

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. During 2012/13, the most commonly applied employer contribution rate within the Brent Pension Fund was 26.9% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Brent Pension Fund's website: <https://www.mylgspension.co.uk/>

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change took effect from 1 April 2011.

LGPS 2014

A reformed Local Government Pension Scheme (LGPS) will be introduced from April 2014. The main elements of the new scheme are:

- a pension scheme design based on career average;
- 1/49th accrual rate with revaluation of active members' benefits based on Consumer Prices Index (CPI);
- scheme normal pension age to be equal to the state pension age for both active members and deferred members;
- the earliest point at which retirement benefits can be taken is age 55;
- contributions based on actual pay (including part time employees) with an average member contribution yield of 6.5%, as now, with tiered contributions. Higher earners paying a higher proportion of their earnings in contributions than lower earning colleagues;
- a low cost option allowing members to pay 50% contributions for half the main benefits;
- all accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme;

- vesting period when members can get a refund on their contributions if they leave the scheme will be increased from three months to two years.

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

- i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iv) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
 - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
 - Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
 - Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 18).

n) Additional voluntary contributions

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4. Critical judgements in applying accounting policies

Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2013 was £100m (£81m at 31 March 2012).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £187m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £35m, and a one-year increase in assumed life expectancy would increase the liability by approximately £37m.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity/infrastructure	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £100m. There is a risk that this investment may be under- or overstated in the accounts.
Fund of hedge funds	The fund of hedge funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of hedge funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total fund of hedge funds value in the financial statements is £27m. There is a risk that this investment may be under- or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the fund of hedge funds valuation is based. This equates to a tolerance of +/- £1m.

6. Events after the Balance Sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions receivable

By category

	2011/12	2012/13
	£'000	£'000
Employers	33,883	36,278
Members	7,780	7,504
Total	41,663	43,782

By authority	2011/12 £'000	2012/13 £'000
Scheduled bodies	40,727	42,626
Admitted bodies	936	1,156
Total	41,663	43,782

8. Transfers in from other pension funds

	2011/12 £'000	2012/13 £'000
Individual transfers	2,152	1,361
Total	2,152	1,361

9. Benefits payable

By category

	2011/12 £'000	2012/13 £'000
Pensions	25,642	28,183
Commutation and lump sum retirement benefits	7,805	5,590
Lump sum death benefits	845	399
Total	34,292	34,172

By authority

	2011/12 £'000	2012/13 £'000
Scheduled bodies	32,553	32,941
Admitted bodies	1,739	1,231
Total	34,292	34,172

10. Payments to and on account of leavers

	2011/12 £'000	2012/13 £'000
Refunds to members leaving service	25	14
Payments for members joining state scheme	-3	-2
Individual transfers	3,110	3,271
Total	3,132	3,283

11. Administration expenses

	2011/12 £'000	2012/13 £'000
Pension administration costs	914	899
External audit fees	33	25
Actuarial fees	66	30
Total	1,013	954

12. Investment income

	2011/12 £'000	2012/13 £'000
Fixed interest securities	2,310	21
Equity dividends	3,043	1,179
Pooled property investments	1,714	1,798
Interest on cash deposits	65	31
Private equity/infrastructure	944	421
Other	160	0
Total	8,236	3,450

13. Investment management expenses

	2011/12 £'000	2012/13 £'000
Management fees	2,510	1,383
Performance monitoring service	20	20
Other advisory fees	69	35
Total	2,599	1,438

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

14. Investments

	Market value 31 March 2012 £'000	Market value 31 March 2013 £'000
Investment assets		
Fixed interest securities	77,040	0
Equities	86,491	0
Pooled investments	205,281	405,064
Pooled property investments	34,739	33,320
Private equity/infrastructure	80,729	99,913
Investment income due	544	0
Total investments	484,824	538,297

a) Reconciliation of movements in investments

	Market value 1 April 2012	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2013
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	77,040	0	-77,040	0	0
Equities	86,491	0	-86,491	0	0
Pooled investments	205,281	275,238	-118,020	42,565	405,064
Pooled property investments	34,739	0	0	-1,419	33,320
Private equity/infrastructure	80,729	25,306	-10,216	4,094	99,913
	484,280	300,544	-291,767	45,240	538,297
Other investment balances:					
Investment income due	544				0
Net investment assets	484,824				538,297

	Market value 1 April 2011	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2012
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	84,965	128,760	-139,748	3,063	77,040
Equities	247,060	58,461	-210,619	-8,411	86,491
Pooled investments	42,286	164,787	0	-1,792	205,281
Pooled property investments	33,093	1,200	-18	464	34,739
Private equity/infrastructure	60,183	25,175	-5,456	827	80,729
Global Tactical Asset Allocation	18,827	0	-17,199	-1,628	0
	486,414	378,383	-373,040	-7,477	484,280
Other investment balances:					
Investment income due	489				544
Net investment assets	486,903				484,824

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

b) Analysis of investments

	31 March 2012	31 March 2013
	£'000	£'000
Fixed interest securities		
UK		
Public sector quoted	66,094	0
Corporate quoted	1,141	0
Overseas		
Public sector quoted	9,805	0
	77,040	0
Equities		
UK		
Quoted	86,491	0
	86,491	0
Pooled funds – additional analysis		
UK		
Fixed income unit trust	0	82,898
Unit trusts	15,980	99,392
Fund of hedge funds	40,494	27,231
Diversified growth funds	0	33,953
Overseas		
Unit trusts	148,807	161,590
	205,281	405,064
Pooled property investments	34,739	33,320
Private equity/infrastructure	80,729	99,913
	115,468	133,233
	484,280	538,297

Investments analysed by fund manager

	Market value 31 March 2012		Market value 31 March 2013	
	£'000	%	£'000	%
Legal & General	117,764	24.3	202,617	37.6
Henderson	93,020	19.2	105,243	19.5
Brent in-house investment team	87,035	17.9	0	0
Capital Dynamics	63,861	13.1	81,199	15.1
Yorkshire Fund Managers	1,402	0.3	1,144	0.2
Fauchier	40,494	8.4	27,231	5.1
Baillie Gifford	0	0	33,953	6.3
Aviva	34,739	7.2	33,320	6.2
Dimensional	31,043	6.4	36,945	6.9
Alinda	15,466	3.2	16,645	3.1
Total	484,824	100.0	538,297	100.0

All the above companies are registered in the United Kingdom.

Concentration of investments

During the year, no individual investment exceeded 5% of the total value of the Fund's net assets.

c) Stock lending

The Brent Pension Fund does not operate a Stock Lending programme.

15. Financial instruments

a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2012			31 March 2013		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
77,040			0		
86,491			0		
205,281			405,064		
34,739			33,320		
80,729			99,913		
	5,591			5,534	
544			0		
	5,285			4,483	
484,824	10,876	0	538,297	10,017	0
Financial Liabilities					
		-1,803			-431
484,824	10,876	-1,803	538,297	10,017	-431

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and fund of hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2013	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	411,153		127,144	538,297
Loans and receivables	10,017			10,017
Total financial assets	421,170	0	127,144	548,314
Financial liabilities				
Financial liabilities at amortised cost	-431			-431
Total financial liabilities	-431	0	0	-431
Net financial assets	420,739	0	127,144	547,883

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2012	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	363,601		121,223	484,824
Loans and receivables	10,876			10,876
Total financial assets	374,477	0	121,223	495,700
Financial liabilities				
Financial liabilities at amortised cost	-1,803			-1,803
Total financial liabilities	-1,803	0	0	-1,803
Net financial assets	372,674	0	121,223	493,897

16. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset type	Potential market movements (+/-)
Fixed interest	3.8%
UK equities	12.7%
Overseas equities	13.9%
Property	2.5%
Alternative investments	5.3%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	5,534	0.0	5,534	5,534
Investment portfolio assets:				
Fixed interest	82,898	3.8	86,048	79,748
UK equities	99,392	12.7	112,015	86,769
Overseas equities	161,590	13.9	184,051	139,129
Property	33,320	2.5	34,153	32,487
Alternative investments	161,097	5.3	169,635	152,559
Total	543,831		591,436	496,226

Asset type	Value at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	5,591	0.0	5,591	5,591
Investment portfolio assets:				
Fixed interest	77,040	3.8	79,968	74,112
UK equities	103,015	12.7	116,098	89,932
Overseas equities	148,807	13.9	169,491	128,123
Property	34,739	2.5	35,607	33,871
Alternative investments	121,223	5.3	127,648	114,798
Total	490,415		534,403	446,427

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2012	31 March 2013
	£'000	£'000
Cash balances	5,591	5,534
Fixed interest securities	77,040	82,898
Total	82,631	88,432

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. Experience suggests that long-term average rates are expected to move less than 100 basis points from one year to the next.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash balances	5,534	55	-55
Fixed interest securities	82,898	829	-829
Total change in assets available	88,432	884	-884

Asset type	Carrying amount as at 31 March 2012 £'000	Change in year in the net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Cash balances	5,591	56	-56
Fixed interest securities	77,040	770	-770
Total change in assets available	82,631	826	-826

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency exposure – asset type	Asset value at 31 March 2012 £'000	Asset value at 31 March 2013 £'000
Overseas fixed income	9,805	0
Overseas unit trusts	148,807	161,590
Overseas pooled property investments	6,294	5,487
Overseas private equity/infrastructure	80,729	99,913
Total overseas assets	245,635	266,990

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 9%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at	Change to net assets	
	31 March 2013	available to pay	
		+9%	-9%
	£'000	£'000	£'000
Overseas unit trusts	161,590	176,133	147,047
Overseas pooled property investments	5,487	5,981	4,993
Overseas private equity/infrastructure	99,913	108,905	90,921
Total change in assets available	266,990	291,019	242,961

	Asset value as at	Change to net assets	
	31 March 2012	available to pay	
		+9%	-9%
	£'000	£'000	£'000
Overseas fixed income	9,805	10,687	8,923
Overseas unit trusts	148,807	162,200	135,414
Overseas pooled property investments	6,294	6,860	5,728
Overseas private equity/infrastructure	80,729	87,995	73,463
Total change in assets available	245,635	267,742	223,528

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria. Given the relatively low level of cash held by the Pension Fund at any one time, it is not considered necessary to place deposits with other banks and financial institutions to provide diversification.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2013 was £5.534m (31 March 2012: £5.591m). This was held with the following institutions:

	Rating	Balances as at 31 March 2012 £'000	Balances as at 31 March 2013 £'000
Bank deposit accounts			
NatWest	A	5,591	5,534
Total		5,591	5,534

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2013 the value of illiquid assets was £160.5m, which represented 30% of the total fund assets (31 March 2012: £156.0m, which represented 32% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

17. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next valuation will take place as at March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 22 years from 1 April 2013 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the Fund was assessed as 61% funded (72% at the March 2007 valuation). This corresponded to a deficit of £294m (2007 valuation: £194m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2014 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

Year	Employers' contribution rate
2011/12	25.1%
2012/13	26.9%
2013/14	27.4%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

The main actuarial assumptions used for the March 2010 actuarial valuation were as follows:

Discount rate for periods

In service	
Scheduled bodies	7.50% a year
Admission bodies	6.25% a year
After leaving service	
Scheduled bodies	7.50% a year
Admission bodies	4.75% a year
Inflation (assumed to be RPI)	3.80% a year
Salary increases (assumed to be 1.5% over RPI)	5.30% a year
Pension increases (CPI assumed to be 0.5% less than RPI)	3.30% a year

Mortality assumptions

Future life expectancy based on the Actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	23.7 years	26.5 years

Commutation assumption

It is assumed that future retirees will take 25% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

18. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £1,587m (31 March 2012: £1,294m). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

Inflation/pension increase rate assumption	2.8%
Salary increase rate	5.1%
Discount rate	4.5%

19. Current assets

	31 March 2012 £'000	31 March 2013 £'000
Debtors:		
- Contributions due – employees	103	146
- Contributions due – employers	2,102	2,596
- Sundry debtors	1,159	384
Cash balances	5,591	5,534
Total	8,955	8,660

Analysis of debtors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	112	245
Other local authorities	2,449	2,742
Other entities and individuals	803	139
Total	3,364	3,126

20. Non current assets

	31 March 2012 £'000	31 March 2013 £'000
Non current assets	1,921	1,357
Total	1,921	1,357

Non current assets comprises of contributions due from employers, repayable later than a year of the Balance Sheet date.

21. Current liabilities

	31 March 2012 £'000	31 March 2013 £'000
Sundry creditors	1,803	431
Total	1,803	431

Analysis of creditors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	10	5
Other entities and individuals	1,793	426
Total	1,803	431

22. Additional voluntary contributions

	Market value 31 March 2012 £'000	Market value 31 March 2013 £'000
Clerical Medical	1,138	1,190
Equitable Life	175	172
Total	1,313	1,362

AVC contributions of £79,000 were paid to Clerical Medical during the year (2011/12: £88,000). The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

23. Related party transactions

Brent Council

The Brent Pension Fund is administered by Brent Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.987m (2011/12: £1.027m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £31.576m to the Fund in 2012/13 (2011/12: £30.482m). All monies owing to and due from the Fund were paid in year.

Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund.

Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

Key management personnel

Paragraph of the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* (the Code) exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Brent Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Brent Council.

24. Contingent liabilities

The Fund had no contingent liabilities at 31 March 2013.

25. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled £64.979m (31 March 2012: £89.093m).

	31 March 2012	31 March 2013
	£'000	£'000
Capital Dynamics	77,545	54,077
Alinda	10,435	10,636
Yorkshire Fund Managers	1,113	266
Total	89,093	64,979

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

26. Contingent assets

Five non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31 March 2012	31 March 2013
	£'000	£'000
Wettons (Estate Cleaning & North Grounds Maintenance)	158	158
Wettons (South Grounds Maintenance)	145	145
Capita	123	123
Willow Housing & Care Ltd	45	45
Xerox (UK) Ltd	0	29
Total	471	500

27. Impairment losses

The Fund had no impairment losses at 31 March 2013.

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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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