



Brent

Brent Pension Fund Sub-Committee

Monday 7 October 2013 at 6.30 pm

Boardroom - Brent Civic Centre, Engineers Way,
Wembley, HA9 0FJ

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
0208 937 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:
democracy.brent.gov.uk

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
1 Declarations of personal and prejudicial interests	
Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2 Minutes of the previous meeting	1 - 6
3 Matters arising	
4 Deputations (if any)	
5 WM Company - Annual Performance Review	
A representative of WM Company, Lynn Coventry, will give a presentation on annual performance review for the period ending March 2013.	
Bound copies of the accompanying report by MW Company have been produced separately and sent to members only.	
6 Pension fund annual report and accounts 2012/13	7 - 112
In 2008, the Department for Communities and Local Government (DCLG) introduced into regulations the requirement for Local Government Pension Scheme (LGPS) administering authorities to produce an LGPS pension fund annual report. Its purpose is to improve transparency and consistency in reporting on the activities of Brent Council with regard to its role as an administrator of the LGPS. The annual report is a major line of communication between pension fund administrators and pension fund stakeholders and its contents have been structured in such a way to meet the information needs of all stakeholders.	
An appendix to the report by KPMG, the external auditors, is attached.	

Ward affected: All Wards

Contact Officer: Mick Bowden, Deputy
Director of Finance

Tel: 020 8937 1460

mick.bowden@brent.gov.uk

7 Monitoring report on fund activity for the quarter ended June 2013 113 -
132

This report provides a summary of the Fund's activity during the quarter ended 30 June 2013. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter.

8 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.



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.

This page is intentionally left blank



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND Tuesday 25 June 2013 at 6.30 pm

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

Apologies for absence were received from: Councillors Crane and Arnold

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

None declared.

2. **Mr Peter Davies**

On behalf of the Sub-Committee, the Chair welcomed Mr Peter Davies, the newly appointed Independent Adviser to Brent Pension Fund, to his first meeting. The Chair also paid tribute to the Mr Valentine Furniss the former Independent Adviser for his invaluable services to the Fund for a considerable number of years.

3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 26 February 2013 be approved as an accurate record of the meeting.

4. **Matters arising**

None.

5. **Deputations**

None.

6. **Presentation on alternative indices by Legal & General**

Stephen Castle (Client Relationship Manager) and Nick Hodges (Index Funds Product Specialist), representatives of Legal and General Investment Management (LGIM) gave a presentation on alternative weighted indices. In providing the LGIM business update, Stephen Castle stated that the annual growth of new business was around £43billion and that the index equity assets were £269billion of which Local Government Pension Schemes (LGPS) accounted for £28.3billion and 54 funds. Brent's assets in the scheme were £210million. He continued that the

product range included emerging market debt funds, transition management and currency overlay.

Nick Hodges provided an insight into capitalisation weighted indices and informed members that the main advantages were that they were clear and easily understood and in theory, provided maximum diversification. He continued that by being easily traded, the indices allowed for sufficient liquidity and had lower transaction costs. He however advised members that due to market inefficiencies, the theory was imperfect and always overweight in overvalued shares and underweight in undervalued shares.

Nick Hodges continued that significant interest in alternatively weighted indices had arisen due to their key advantages of index management including transparency, diversification, risk minimisation and liquidity. Members heard that capitalisation weighted indices provided were tried and tested benchmarks which were easily understood globally, although they were more complex than traditional indices.

RESOLVED:

that the presentation on alternative indices be noted and that Anthony Dodridge, Head of Exchequer and Investment be tasked with producing a follow-on report to Members regarding the use of alternative indices and any recommendations arising in relation to the Brent Pension Fund for the next Pension Fund Sub-Committee meeting..

7. Monitoring report on fund activity for the quarter ended 31 March 2013

The Sub-Committee considered a report that summarised the Fund's activity during the quarter ended 31 March 2013 and examined the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. Members noted that the Fund had increased in value by £40.9m from £501.0m to £541.9m and outperformed its quarterly benchmark with a return of 7.5% (6.4%).

Anthony Dodridge, Head of Exchequer and Investment attributed the strong performance 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%. The cumulative result was an increase in the value of the Fund by an estimated £16.0m and the annual performance relative to the 99 Local Government Pension Scheme (LGPS) funds nationally increasing from the 98th to 85th percentile. Members heard that despite the improved quarterly performance, it represented an underperformance when compared to the WM Local Authority average fund return of 9.0% for the quarter. The Head of Exchequer and Investment advised members that efforts would be made to further build on the improved performance to ensure that it continued over the coming year. He then gave an analysis of the asset allocation as at 31 March 2013 and returns on investment in individual markets as set out in his quarterly report.

Peter Davies, the Independent Adviser to the Fund reported that the pattern of rising equity market in the first quarter was maintained overall during April and May, although Pacific Basin and Emerging Markets lost ground. He added that equities

had been advancing steadily until May, when Federal Reserve indicated envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economic recovery gathered pace. In response, equities retreated sharply the next day, with Japan losing 7% and most other markets down by 2% – 3%, and continued to drift lower for the rest of the month. He also attributed the fall to weaker than expected economic data from China and the rise in Japanese bond yields from exceptionally low levels which caused sharp losses in the shares of regional Japanese banks. Members heard that among commodities, gold had fell sharply – from almost \$1600/oz to just above \$1400/oz in the past two months, while the prices of both copper and oil declined on signs that China's rate of growth this year would be slower than previously expected.

RESOLVED:

that the monitoring report for the quarter ending 31 March 2013 be noted.

8. Brent Pension Fund accounts for 2012/13

The Sub-Committee received a report that introduced the draft Pension Fund accounts for 2012/13. Anthony Dodridge, Head of Exchequer and Investments advised members that the accounts (which were unaudited) aimed 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.

Members noted that 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 and that the value of benefits payable (pensions and lump sums) had remained broadly unchanged in 2012/13. He continued that while the value of pensions paid had risen to reflect both price inflation and additional pensioners, this had been offset by a corresponding fall in lump sums paid. Contributions into the Fund continued 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. It was also noted that overall, the Fund's net assets at 31 March 2013 had increased to a new all-time high of £547.9m (31 March 2012: £493.9m).

In response to a member's enquiry, Anthony Dodridge clarified that changes in the provision of audit services were made by Central Government and following competitive tendering process that resulted in KPMG replacing the Audit Commission as the Council's external auditor. He added that financial savings made as a result of that change and lower manager fees had all contributed to the increase in the Fund's net assets.

RESOLVED:

that the Brent Pension Fund accounts for 2012/13 be noted.

9. **Statement of Investment Principles (SIP) review**

In accordance with the Access to Information Rules, the following report was considered urgent in the opinion of the Chair due to the need to increase the limit on the maximum proportion of a Fund which can be invested in partnerships to 30%. Given that the proportion is already at the current maximum limit of 15%, the report needed to be considered before the next meeting. The report was not available when the agenda was published given the additional officer time required to reconfigure the Fund's accounts for 2012/13 into a best practice format.

Anthony Dodridge, Head of Exchequer and Investments informed the Sub-Committee that in order 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. It was noted that the latest review prompted by the Secretary of State for Communities and Local Government had increased the maximum proportion of a local government pension fund which can be invested in partnerships from 15% to 30%. The Fund's SIP document attached as appendix 1 to the report had been revised to incorporate the greater investment flexibility provided which came into force on 1 April 2013.

RESOLVED:

that the Brent Pension Fund Statement of Investment Principles (SIP) incorporating investment in partnerships from 15% to 30% be approved.

10. **Any other urgent business**

None.

11. **Date of next meeting**

It was noted that as the scheduled date of next meeting (24/09/13) in the calendar was likely to clash with party conferences, a new date would be confirmed following consultations.

12. **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 Access to Information Act 1972, namely;

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

13. Fund of Hedge Funds mandate - Fauchier Partners

Members considered a report that reviewed the fund of hedge funds mandate managed by Fauchier Partners. Members took note of the performance figures and the advice by the Head of Exchequer and Investments.

RESOLVED:

that the recommendation set out in paragraph 2.1 of the report by the Deputy Director of Finance be agreed.

14. Proposal to appoint a global custodian

In accordance with the Access to Information Rules, the following report was considered urgent in the opinion of the Chair in order to commence the process of making a saving to the Council of approximately £40,000 per annum. The report was not available when the agenda was published given the additional officer time required to reconfigure the Fund's accounts for 2012/13 into a best practice format

Members considered a report by the Deputy Director of Finance that sought to improve the long term performance of the Fund by appointing a global custodian to manage its affairs. Members heard that the decision to appoint a global custodian would be cost neutral in broad terms. The total fees for a comprehensive global custodian service of an estimated £50,000 to £60,000 per year would be offset by financial savings arising from accessing more competitive foreign exchange rates together with removing the need to incur existing costs with BNY Mellon for a very limited custodian service. The appointment of a global custodian service would enable the Fund to focus on returns, reduce risk and enhance governance and regulatory compliance. Instating a global custodian would also deliver efficiency improvements over the long term through standardised processes and consolidated reporting.

RESOLVED:

that approval be given to commence proceedings to appoint a global custodian and grant the Deputy Director of Finance the power under delegated authority to make an appointment and the award to be made through Brent's participation in a collaborative national procurement framework exercise led by Norfolk County Council.

The meeting closed at 8.10 pm

S CHOUDHARY
Chair

This page is intentionally left blank

 Brent	<p style="text-align: center;">Pension Fund Sub-Committee 7 October 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance</p>
For Information	Wards Affected: ALL
Pension Fund Annual Report and Accounts 2012/13	

1. SUMMARY

- 1.1 In 2008, the Department for Communities and Local Government (DCLG) introduced into regulations the requirement for Local Government Pension Scheme (LGPS) administering authorities to produce an LGPS pension fund annual report.
- 1.2 Its purpose is to improve transparency and consistency in reporting on the activities of Brent Council with regard to its role as an administrator of the LGPS. The annual report is a major line of communication between pension fund administrators and pension fund stakeholders, be they members, pensioners, local tax payers or regulators. Its contents have been structured in such a way to meet the information needs of these stakeholders and all those that have an interest in the efficient and effective administration of the LGPS.
- 1.3 As the appointed external auditors, KPMG have undertaken a statutory audit of the Brent Pension Fund accounts for the year ended 31 March 2013 and have also reviewed the Annual Report. KPMG are pleased to report that their audit of the Fund's financial statements identified only one audit adjustment which was a minor presentational adjustment to a disclosure note which has since been actioned and anticipate issuing an unqualified opinion on the Fund's financial statements and its Annual Report. A draft copy of their 'Report to those charged with governance (ISA 260) 2012/13' is attached.

2. RECOMMENDATIONS

- 2.1 Members are asked to note the Pension Fund Annual Report and Accounts for 2012/13.

3. DETAIL

- 3.1 The Brent Pension Fund has benefited from a significant improvement in investment returns during the financial year ended 31 March 2013, with investment benchmarks exceeded overall, and the value of the Fund's net investment assets increasing by 10.9% to £547.9m (2011/12 £493.9m).
- 3.2 The Fund remains in a positive cash flow position, with a net £6.7m addition from dealing with scheme members (£5.4m previous year) to invest in order to meet the Fund's future pension liabilities.

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

- 8.1 CIPFA publication – 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds'.

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



Brent Pension Fund

Annual Report and Accounts 2012/13

Pensions Regulator Scheme Number: 10272080

Contents

	Page no.
The report	
Chairman's Foreword	3
Management Structure	5
The Local Government Pension Scheme	6
Governance	7
Scheme Administration	10
Communications	11
Actuarial Position	12
Investment Review 2012/13	13
Investment Policy and Performance	15
Pension Fund Accounts for 2012/13	18
Statement of Responsibilities	55
Independent Auditor's Report	56
Appendices	
Annual Governance Statement	58
Governance Compliance Statement	60
Communication Policy Statement	63
Funding Strategy Statement	66
Statement of Investment Principles	75
Glossary	87

Chairman's Foreword

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2012/13.

The Fund has 5,373 contributors, 6,050 pensioners and 7,123 deferred pensioners.

The scheme is administered locally and is a valuable part of the pay and reward package for employees working in Brent Council or working for other employers in the Borough participating in the scheme.

Against a backdrop of continued uncertainty in the global economy, and volatility in the financial markets, the Fund had a positive year in terms of investment performance, with investment benchmarks exceeded overall, and the value of the Fund's net investment assets increasing by 10.9% to £547.9m (2011/12 £493.9m).

During the course of the year, the Fund reduced its commitment to hedge funds and appointed Baillie Gifford to manage a new diversified growth fund investment portfolio.

Total contributions income received from employers and employees totalled £45.1m for the year, an increase on the previous year's £43.8m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.4m, unchanged from the previous year.

The Fund remains in a positive cash flow position, with a net £6.7m addition from dealing with scheme members (£5.4m previous year) to invest in order to meet the Fund's future pension liabilities.

Looking ahead, there are a number of challenges facing Local Government Pension Schemes (LGPS):

- The implementation of a reformed LGPS which will be introduced from April 2014 with a new scheme design, controlling future costs and managing longevity.
- Auto enrolment to the Fund commenced from 1 June 2013 resulting in eligible employees who had previously opted out of the pension scheme, now becoming members of the scheme automatically.
- The on-going volatility and uncertainty in the global economy, and linked to that the continuing regime of public sector austerity over the medium and quite possibly longer term. These issues have significant implications for the Fund and Fund employers.

The actuarial valuation of the Fund as at 31 March 2013 is in progress, and this will play a part in setting employer contribution rates for three years from 2014/15 onwards. The valuation results are expected later this year. After they have been published, the Pension Fund Sub-Committee will review the investment managers' performance and review its investment strategy for the coming years, making changes as it considers necessary.

In conclusion, I would like to extend my thanks and appreciation to all members of the Pension Fund Sub-Committee and officers for their continued input to the strong governance and management arrangements of the Fund.

Cllr Shafique Choudhary
Chairman, Brent Pension Fund Sub-Committee

Management Structure

- Administering Authority:** Brent Council
Civic Centre
Engineers Way
Wembley
Middlesex
HA9 0FJ

- Brent Pension Fund Officers:** Anthony Dodridge, Head of Investments
Andrew Gray, Pensions Manager

- Legal Advisers:** In-house

- Custodian:** BNY Mellon

- Actuary:** Hymans Robertson

- Independent Adviser:** Peter Davies

- Fund Managers:** Legal & General
Henderson
Capital Dynamics
Yorkshire Fund Managers
Fauchier
Baillie Gifford
Aviva
Dimensional
Alinda

- Banker:** NatWest

- Auditor:** KPMG

- Performance Measurement:** WM

- AVC Providers:** Clerical Medical
Equitable Life (legacy only)

The Local Government Pension Scheme

The Government Pension Scheme (LGPS) is a statutory pension scheme.

This means that it is very secure as its benefits are defined and set out in law.

Under regulation 34 of The Local Government Pension Scheme (Administration) Regulations 2008 No. 239, all LGPS funds are required to publish an Annual Report.

This document is the Annual Report and Accounts of the Brent Pension Fund for 2012/13.

The LGPS in brief

- The LGPS is one of the largest public sector pension schemes in the UK, with 4.6 million members.
- It is a nationwide pension scheme for people working in local government or for other types of employer participating in the scheme.
- The LGPS is administered locally by 99 regional pension funds – one of which is the Brent Pension Fund.
- It is a funded scheme, which means that Fund income and assets are invested to meet future pension fund commitments.
- Benefits are defined and related to members' salaries, so they are not dependant on investment performance. Ultimately the local authority and local taxpayers are the final guarantors.
- The scheme is regulated by Parliament.

Governance

Governance Statement

The Brent Pension Fund publishes a Governance Statement each year. The latest version of this document is at page 58.

The Governance Statement reflects the Fund's commitment to transparency and engagement with employers and scheme members.

We monitor, review and consult where appropriate to ensure that our governance arrangements continue to be effective and relevant.

Administering Authority

Brent Council is the Administering Authority of the Brent Pension Fund and administers the LGPS on behalf of its participating employers.

- Brent Council has delegated its pensions functions to the Pension Fund Sub-Committee
- Brent Council has delegated responsibility for the administration and financial accounting of the Fund to the Chief Finance Officer
- This report supports Brent Council's Annual Governance Statement, which is published at page 58.

Governance Compliance

The Brent Pension Fund is fully compliant with the principles set out in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) Regulation 31.

The full compliance statement is at page 60.

Pension Fund Sub-Committee

The Pension Fund Sub-Committee is responsible for the strategic management of the assets of the Fund and the administration of benefits. The Pension Fund Sub-Committee meets quarterly to:

- ensure compliance with legislation and best practice
- determine policy for the investment, funding and administration of the Fund
- monitor performance across all aspects of the service

- consider issues arising and make decisions to secure efficient and effective performance and service delivery
- appoint and monitor advisers
- ensure that arrangements are in place for consultation with stakeholders as necessary.

Pension Fund Sub-Committee Membership as at 31 March 2013

Chair: Cllr Shafique Choudhary

Vice Chair: Cllr George Crane

Other Members: Cllr Mary Arnold
Cllr Joyce Bacchus
Cllr Daniel Brown
Cllr Sami Hashmi
Cllr Bhiku Patel

Employee representative: George Fraser

Employer representative: Ashok Patel

Other attendees: Mick Bowden, Deputy Director of Finance
Anthony Dodridge, Head of Investments
Andrew Gray, Pensions Manager
Peter Davies, Independent Adviser

Pension Fund Sub-Committee Training

Training is business driven, therefore the programme is flexible. This allows us to effectively align training with operational needs and current agenda items, helping to support Member decision making.

Member training is supplemented by attendance at pensions investment conferences and other associated events.

Conflict of Interests

There is a standing agenda item at each Pension Fund Sub-Committee meeting for Members to declare any personal or prejudicial interests.

Accountability and Transparency

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at www.brent.gov.uk.

Pension Fund Sub-Committee meetings are open to members of the public.

Scheme Administration

The Brent Pensions Team

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

The Pensions Team is accountable to the Pension Fund Sub-Committee, participating employers and scheme members. The team are fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to delivering excellent customer care.

The team's responsibilities include the following:

- ensuring the accuracy of pensions records, including the preparation and distribution of the Annual Benefit Statements to all scheme members
- the timely collection of contributions
- advice and guidance to scheme members
- advice and guidance to employers
- early retirement schemes for Fund employers.

Operational costs

The Fund's operational costs are monitored throughout the year by the Fund's management team and reported in the Pension Fund Annual Accounts.

Communications

The Brent Pension Fund is committed to delivering a consistently high level of performance and customer service. Excellent communication is core to this commitment.

In all our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information
- carefully listen, consider and respond to communications we receive
- use plain English where possible and avoid unnecessary jargon
- use the communication method that best suits the audience and the information being passed on.

The Council's Communication Policy Statement can be found at page 63.

The Statement sets out who our main customers and contacts are, detailing how and when we communicate with them. We continually review and monitor our communications and the Statement is formally reviewed and endorsed each year by the Pension Fund Sub-Committee.

Actuarial Position

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary. The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. The latest valuation as at 31 March 2013 is currently in the process of being carried out.

The purpose of this is to establish that the Brent Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of accrued liabilities.

In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable employer contributions to be kept as stable as possible and at reasonable cost; and
- maximise the returns from investments within reasonable risk parameters.

The most recent valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £457.4m, were sufficient to meet 61% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £293.6m.

Asset-liability modelling was carried out which demonstrated that an average employer contribution rate of 24.6% of pensionable pay would restore the Fund to full funding using a 25-year recovery period.

During 2012/13, the most commonly applied employer contribution rate within the Brent Pension Fund was 26.9% of pensionable pay. Other employers have different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. In addition, the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years.

Investment Review 2012/13

Economic Background

Gross Domestic Product (GDP) growth in 2012 was in line with mid-year forecasts, except for a disappointing UK which recorded no growth for the year. The US and Japan each grew by 2% and China by 8%, but the Eurozone economies contracted by 0.5%. Forecasts for 2013 show an improvement for the UK, and similar numbers to 2012 elsewhere, but these remain below the longer-term trend rates of growth.

Within the Eurozone, fears that Greece would leave the euro – and worries about the situation in Spain and Italy – were alleviated by European Central Bank (ECB) President Mario Draghi's statement in July 2012 that he would do "whatever it takes" to preserve the euro. This was backed up by the launch of the ECB's Outright Monetary Transactions (OMT) policy, under which the ECB would buy shorter-dated government bonds provided the government in question had requested help and agreed to the imposition of fiscal conditions. The policy has not yet been activated, but the yields on Spanish and Italian sovereign bonds have fallen significantly. Elections in Holland and Italy have shown strong support for the anti-austerity candidates which casts doubt on the political acceptability of further austerity measures. In the UK, the Chancellor has had to admit that his deficit reduction targets will not be met until at least two years later than planned.

The US Federal Reserve has continued its programme of Quantitative Easing, but the Bank of England's programme is in abeyance. The new Japanese Prime Minister, Shinzo Abe, has overhauled economic policy – announcing a 2% inflation target, fiscal stimulus and structural reforms – while the Bank of Japan intends to double the money supply in the next two years. This has caused a sharp fall in the yen since November 2012, but an even sharper rise in Japanese equities.

Market Returns

Equity markets began to gain ground in the autumn of 2012, and rose strongly in the first quarter of 2013 as fears regarding a Eurozone breakup and the likelihood of a 'fiscal cliff' in the US subsided. Developed Market equities gave total returns of 15-20% (in £) for the year to March, but returns from Emerging Market equities once again lagged behind. 'Safe haven' government bonds continued to be in demand: 10-year yields fell to below 2% in the US and UK, and below 1.5% in Germany. Peripheral sovereign bonds rose after the ECB statement and corporate bonds also recorded good gains as their spreads relative government bonds narrowed.

The Brent Pension Fund achieved a total return of 12.0% for the year, which represented an outperformance relative to its annual benchmark of 11.0%.

Outlook

The surge in equity prices in the early months of 2013 has taken most regional indices above their 2007 peaks, and in some cases to all-time highs. Meanwhile yields on government bonds are still being held down by the substantial programmes of

Quantitative Easing being run by Central Banks. In time this flow of money will abate, and then the current levels of equity and bond markets will be tested in the light of the outlook for economic growth, corporate profits and inflation.

Peter Davies, Independent Adviser
10 July 2013

Investment Policy and Performance

Fund Performance Review for the year 2012/13

Introduction

The Administering Authority invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2012/13, nine external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Henderson (fixed income, UK smaller companies equities and private equity)
- Capital Dynamics (private equity)
- Yorkshire Fund Managers (private equity)
- Fauchier (hedge funds)
- Baillie Gifford (diversified growth fund)
- Aviva (property)
- Dimensional (emerging market equities)
- Alinda (infrastructure)

The Fund's cash balance is held in an interest bearing instant access deposit account with NatWest.

2012/13 Investment Results

During the year, 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 assets. The banking bail-out in Cyprus dented sentiment to some extent but on the whole investors became more tolerant about the continuing troubles of the Eurozone.

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2013 is shown below:

	Total Fund Return	Fund Benchmark Return
1 year	12.0%	11.0%
3 years	6.1%	6.8%
5 years	2.6%	4.6%
10 years	6.1%	7.6%

In absolute terms, the Fund’s investment assets have achieved a return of 12.0% over the 12 months to 31 March 2013. This represented an outperformance relative to its annual benchmark of 11.0%. In earlier years, the Fund’s investment performance had lagged behind its benchmark return.

The Fund’s investment performance 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
10 years	100 th	98 th

The comparative statistics show that the Fund has been one of the lower performing LGPS funds and has consistently underperformed for a number of years.

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.

In particular, the relative immaturity of the Fund’s longer term asset classes of private equity and infrastructure investments has reduced performance. However, these are both showing an underlying improvement which should make a meaningful contribution to maintaining the momentum towards an improved investment performance over the coming year.

Ultimately, strategic asset allocation policies will have a greater impact on Fund performance than the ability of individual investment managers to deliver performance in excess of their benchmarks.

It is important to consider the risk framework in which the investment results are achieved. If the Fund takes more risk in its asset allocation decisions, it offers the potential for higher returns but it also increases the uncertainty of the outcome, potentially increasing the chances of a negative downside. The Fund is committed to on-going review of its asset allocation and achieving an appropriate balance between risk and reward. While the Fund is a long term investor of capital through investment cycles, it is also committed to holding investment managers to account for the results they achieve.

Funding Strategy Statement

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found at page 66.

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the policy which determines how the Fund invests its assets. The Scheme rules require that we publish a SIP that covers our policy on:

- the types of investment to be held
- the balance between different types of investments
- attitude to risk and approach to its management
- the expected return on investments
- the extent to which social, environmental or ethical considerations are taken into account.

We publish a SIP which can be found at page 75.

Pension Fund Accounts for 2012/13

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			
		31 March 2012	31 March 2013
	Notes	£'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 were 35 employer organisations with active members within the Brent Pension Fund at 31 March 2013, listed below:

Scheduled bodies

London Borough of Brent
Alperton High School
ARK Academy
Brent Housing Partnership
Capital City Academy
Newman Catholic College
Claremont High School
College of North West London
Convent of Jesus & Mary RC Language College
Crest Boys Academy
Crest Girls Academy
Islamia Primary School
Jewish Free School
Kilburn Park School
Kingsbury High School
Malorees Junior School
North West London Jewish Day School
Oakington Manor Primary School
Preston Manor High School
Queens Park Community School
St Gregory's RC School
St Joseph's RC School
Sudbury Primary School
The Copland Community School & Technology Centre
Wembley Technology Academy

Admitted bodies

Brent Association of Disabled People
Brent Society for Mentally Handicapped Children (Mencap)
Capita Business Services Limited
Europa Facility Services Limited
National Autistic Society
Sudbury Neighbourhood Centre
Wetton Cleaning and North Grounds Maintenance Services
Wetton South Grounds Maintenance Services
Willow Housing & Care Limited
Xerox (UK) Limited

Brent Pension Fund	31 March 2012	31 March 2013
Number of employers with active members	26	35
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	2012/13
	£'000	£'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	2012/13
	£'000	£'000
Individual transfers	2,152	1,361
Total	2,152	1,361

9. Benefits payable

By category

	2011/12	2012/13
	£'000	£'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	2012/13
	£'000	£'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

b) Net gains and losses on financial instruments

31 March 2012			31 March 2013	
£'000			£'000	
		Financial assets		
-7,477		Fair value through profit and loss		45,240
-7,477		Total		45,240

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2012			31 March 2013	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		Financial assets		
484,824	484,824	Fair value through profit and loss	538,297	538,297
10,876	10,876	Loans and receivables	10,017	10,017
495,700	495,700	Total financial assets	548,314	548,314
		Financial liabilities		
-1,803	-1,803	Financial liabilities at amortised cost	-431	-431
-1,803	-1,803	Total financial liabilities	-431	-431

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

d) Valuation of financial instruments carried at fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'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 31 March 2013	Change to net assets available to pay benefits	
	£'000	+9% £'000	-9% £'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 31 March 2012	Change to net assets available to pay benefits	
	£'000	+9% £'000	-9% £'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. 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 17). 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 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 Business Services Limited	123	123
Willow Housing & Care Limited	45	45
Xerox (UK) Limited	0	29
Total	471	500

27. Impairment losses

The Fund had no impairment losses at 31 March 2013.

Statement of Responsibilities

The Fund's responsibilities

The Fund is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. At Brent Council, the Chief Finance Officer fulfils that responsibility.
- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets
- approve the Brent Pension Fund's statement of accounts.

Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for preparing the Brent Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13 ('the Code of Practice').

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records, which are up to date
- taken reasonable steps to prevent fraud and other irregularities.

Chief Finance Officer's statement

I certify that the statement of accounts as set out on pages 18 to 54 presents a true and fair view of the financial position of the Brent Pension Fund as at the accounting date and its income and expenditure for the year ended 31 March 2013.

Mick Bowden CPFA
Deputy Director of Finance

Independent Auditor's Report

Independent Auditor's Report to the Members of Brent Pension Fund

Opinion on the pension fund financial statements

I have audited the pension fund accounting statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on accounting statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which I report by exception

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

KPMG LLP
15 Canada Square
London
E14 5GL

Appendices

Annual Governance Statement

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require the Fund to maintain a Governance Policy Statement.

The Council, as Administering Authority for the Brent Pension Fund, has delegated responsibility for managing the Fund's investments to its Pension Fund Sub-Committee.

The Pension Fund Sub-Committee oversees the proper administration and management of the Pension Fund. It is responsible for:

- appointing external fund managers and advisers
- making suitable custody arrangements for the Fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in pension fund regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' investment strategies
- monitoring the investment performance of each manager against their respective benchmarks
- the periodic review of the Statement of Investment Principles, the Funding Strategy Statement, this Governance Policy Statement, its Governance Compliance Statement and the Fund's Communication Policy Statement.

The Pension Fund Sub-Committee normally meets four times each year. These meetings are used mainly for discussions with the Fund's investment managers, using reports on their strategies and performance prepared by the Chief Finance Officer, any views of the independent adviser, and presentations prepared by the managers themselves. The Pension Fund Sub-Committee will also consider reports from the Chief Finance Officer, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the Statement of Investment Principles, training, and proposals for scheme change.

The Pension Fund Sub-Committee is constituted to reflect the views of:

- the Council as Administering Authority and the largest employer with 76% of the contributing membership
- other employers with 24% of the membership, and
- the Fund's contributors.

The Pension Fund Sub-Committee consists of:

- seven Brent councillors
- a representative of other employers
- a representative of the Fund's contributors.

There is also an independent adviser who attends all Pension Fund Sub-Committee meetings.

Training

Members of the Pension Fund Sub-Committee and Brent officers have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending is charged to the Pension Fund.

Use of advisers

The Chief Finance Officer advises the Pension Fund Sub-Committee on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Pension Fund Sub-Committee on investment matters.

The Pension Fund Sub-Committee uses the Fund's actuary, Hymans Robertson, and other consultants as necessary, for advice on matters when in-house expertise is not available. The Pension Fund Sub-Committee takes advice from the actuary, the fund managers or specialist consultants or advisers as required on asset allocation, selecting managers, and investment performance targets.

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for the Fund's employers. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

Governance Compliance Statement

This statement shows how Brent Council as the Administering Authority of the Brent Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Administration) Regulations 2008.

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Brent Council's constitution sets out the terms of reference for the Pension Fund Sub-Committee.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
B	Representation	
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, eg admission bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (ad-hoc basis only). 	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members. The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.
b.	That where lay members sit on a main or secondary committee, they are treated	Full compliance. Equal access is provided to all members of the

Ref.	Principles	Compliance and comments
	equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Pension Fund Sub-Committee.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Sub-Committee have full voting rights, but the Sub-Committee works by consensus without votes being required.
E	Training/facility time/expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Sub-Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Sub-Committee and training logs are maintained for all such training undertaken.
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance. The Pension Fund Sub-Committee meets at least four times a year on a quarterly basis to fit its business needs.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee	No formal secondary committees or panels have been established.

Ref.	Principles	Compliance and comments
	sits.	
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Sub-Committee includes lay members. Road shows are arranged for employers.
G	Access	
a.	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Sub-Committee deals with fund administration issues as well as fund investment.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- Employing authorities
- The Fund's contractor for pension administration services, Capita Employee Benefits
- Brent Pensions Team staff
- Other bodies, for example prospective employing authorities.

We are committed to communicating clearly and effectively and we provide a high-quality service to all our stakeholders.

Our communication with scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the scheme and their own benefits.

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation. We intend to develop the website as the prime source of information on the pension scheme. This should ensure timely, up-to-date and easy-to-access information for all our stakeholders.

The *Employee's Guide* is the main reference point for current scheme members. Each new employee gets a copy from their employer. We update it regularly, usually annually when regulations are changed. It is available from our website. Other scheme literature is available from employers or direct from us.

We have a general query call centre which operates during office hours. A voice-mail service takes messages out of hours, and we return these calls the next working day. We also have a general email address for all queries.

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. These are usually issued between May and September each year.

We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. A payslip is also sent to pensioners if there has been a change of more than £3 in their monthly payment.

An annual newsletter is sent to pensioners each March.

The Brent Pension Fund's annual report and full accounts are available to members via our website.

Our communication with employing authorities

WE COMMUNICATE WITH EMPLOYING AUTHORITIES IN SEVERAL WAYS TO HELP THEM MEET THEIR RESPONSIBILITIES AS SCHEME EMPLOYERS.

We give the *Employer Manual* to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from ourselves.

A copy of the Brent Pension Fund annual report and accounts is made available to each employer via the website. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Pension Fund Sub-Committee approving any significant amendment.

We send the full actuarial report on the triennial valuation to employers when they are available.

Our communication with Capita Employee Benefits

It is vital that regular communication takes place with Capita Employee Benefits, to ensure that the Fund's contractor for pension administration services delivers to the requisite quality and cost.

Our communication with Brent Pensions Team staff

It is essential that our staff are kept up to date with all changes to the scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Our communication with other bodies

We provide information to members' representatives on request.

The Pension Fund Sub-Committee receives reports from the Chief Finance Officer. Although these usually concern investment issues, they will advise the Sub-Committee on changes to administrative arrangements or scheme rules where relevant.

Any prospective employing authority will receive a letter outlining the costs of joining the scheme and a copy of the *Employer Manual*.

Funding Strategy Statement

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 require the Brent Pension Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's actuary must take this statement into account when setting employers' contribution rates.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued detailed guidance on the content and format of an FSS. This guidance was followed in preparing this document.

This FSS should be read in the context of the Fund's Statement of Investment Principles (SIP), which sets out in detail the Fund's investment arrangements and strategy.

The FSS was last updated in March 2011, and will be formally reviewed as part of the triennial valuation as at 31 March 2013.

Purpose of the Funding Strategy Statement

The FSS has two main purposes:

- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
- To explain how the Fund will try to maintain stable contribution rates from employers.

Aims of the Fund

The Fund has four main aims:

- To make sure the Fund can always meet its liabilities.
- To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
- To manage the employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

The main aims of the Fund are explained in more detail below.

To make sure the Fund can always meet its liabilities

Brent Council as the Administering Authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income, to avoid the cost of selling any of the Fund's investments. The position is reviewed on a monthly basis to make sure enough cash is available to meet the Fund's obligations.

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers

Achieving stability in employers' contribution rates requires investment in assets that 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar way to the liabilities as economic conditions alter. Of the main strategic asset classes, fixed interest and index-linked investments are the best match for the Fund's liabilities.

Other asset classes, such as shares and property, offer the potential for higher long-term rates of return. A substantial proportion of the Fund's investments are held in these asset classes with the aim of increasing investment returns. However, these asset classes are more risky and can lead to volatile returns over short term periods.

This short term volatility in investment returns can lead to similar volatility in the Fund's solvency level in successive actuarial valuations, which in turn can mean volatility in employers' contribution rates. Such volatility can be reduced by using smoothing adjustments as advised by the Actuary.

Maintaining stability in employers' contribution rates can run counter to the main aim of ensuring solvency. There is a need to strike a balance between the investment policy, smoothing adjustments used when carrying out actuarial valuations, and the stability of employers' contribution rates from one valuation period to the next.

The position can be even more volatile for admission bodies which participate in the Fund for a fixed period (for example, non-local authority employers awarded contracts to provide local authority services), where use of smoothing adjustments is less appropriate.

To manage the employers' liabilities effectively

The Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively.

To maximise the income from investments within reasonable risk parameters

Returns should be higher over the long term than those from Government stocks by investing in other asset classes such as shares, property and alternative investments. However, investment is restricted as specified in the LGPS investment regulations.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time the Council reviews the potential risks of investing in the various asset classes, with help from the Fund's Actuary and its investment managers.

The Fund's funding strategy requires the assets to deliver a long term return of 3.0% a year above Government gilt yields. An investment management structure has been developed and managers appointed to deliver this long term return within an acceptable level of risk. Details of the structure and managers are in the Statement of Investment Principles.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers, and the Fund Actuary. The Council delegates responsibility for fulfilling its obligations to the Pension Fund Sub-Committee.

The Council's obligations as Administering Authority

- To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.
- To invest surplus money in accordance with the LGPS regulations relating to the investment of funds.
- To make sure that cash is always available to meet the Fund's liabilities when they are due.
- To manage the valuation process in consultation with the Fund's Actuary, agreeing appropriate timescales and providing accurate data.
- To monitor regularly the Fund's investment performance and funding level.
- To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.

Individual employers' obligations

- To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the Actuary, paying both to the Council by the due date.
- To exercise discretions allowed to employers within the LGPS regulations.
- To pay for agreed added-years arrangements.
- To keep the Council fully informed of all changes to membership, or other changes that could affect the solvency position.

The Actuary's obligations

- To prepare actuarial valuations and set employers' contribution rates having regard to this Funding Strategy Statement.
- To prepare advice and calculations in connection with cessation valuations, bulk transfers and individual benefit-related matters.

Funding Target and Solvency

The Fund's primary aim is long term solvency. The Fund is deemed to be solvent when the assets held are equal to 100% of the Funding Target. Accordingly, employers' contributions will be set to ensure that 100% of the pension benefits promised can be met over the long term.

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, taking into account the anticipated future membership and contributions due from the membership, meet the funding principle.

The Fund's funding ratio at any particular valuation is the ratio of the value of the assets held to the Funding Target set using the assumptions used in that valuation of the Fund. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit.

Recovery period

When an actuarial valuation shows that the Fund is in deficit, employers' contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the recovery period), while ensuring that the probability of achieving solvency over the recovery period remains acceptable. A recovery period of 25 years was used in the 2010 valuation for scheduled employers. Were any member employers to participate in the Fund for a short period only, the Council and Actuary would be unlikely to agree to their having a recovery period longer than their remaining term of participation.

Grouping

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e., to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together regarding the risks associated with payment of lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally.

Stepping

Consistent with the requirement to keep employer contribution rates as stable as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted.

Notional sub-funds for individual employers

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be rolled forward allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

In some cases there is insufficient information to complete these calculations. In these circumstances where, in the opinion of the Actuary, the unavailable cashflow data is of low materiality, estimated cashflows will be used.

Where, in the opinion of the Actuary, the cashflow data which is unavailable is material, the Actuary will use an analysis of gains and losses to roll forward the notional sub-fund. This method is less precise than using cashflows, and involves calculating gains and losses to the surplus or deficit shown at the previous valuation to determine an expected surplus or deficiency at this valuation. This is compared with the liabilities evaluated at this valuation to calculate an implied notional asset holding.

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agreed to provide a source of future funding in respect of any emerging deficits in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). The Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

Where an employer is leaving the Fund and will no longer have any contributing members, and the residual liabilities are not subsumed, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any cessation valuation, carried out in accordance with Administration Regulation 38, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. To achieve this, the Administering Authority will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government fixed-interest and index-linked bonds.

Cessation of participation

Where an admission body ceases participation, a cessation valuation will be carried out in accordance with Administration Regulation 38 of the Local Government Pension Scheme (Administration) Regulations 2008. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the cessation valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the cessation valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's (or group of employers') liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding obligation revealed in the cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a cessation payment being required.

Identification of risks and counter measures

The Administering Authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The Administering Authority will not adopt assumptions which, in its judgement, and on the basis of actuarial advice received, mean that it is less than 55% likely that the strategy will deliver funding success. Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a material reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are as follows:

Demographic

Demographic risks include changing retirement patterns and increasing life expectancy. The Administering Authority will make sure the Fund's Actuary investigates these matters at each valuation, or more often if necessary. The Actuary will report to the Administering Authority as appropriate. The Administering Authority will then agree with the Actuary any necessary changes to the assumptions used in assessing solvency.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the likely effect on their contributions after the next full valuation, and will review the bonds that are in place for Transferee Admission Bodies.

Regulatory

Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules. The Administering Authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Administering Authority will ask the Fund's Actuary to assess the effect of any changes on employers' contribution rates.

The Administering Authority will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Governance

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the Administering Authority promptly.

To limit this risk, the Administering Authority requires the other participating employers to communicate regularly with it on such matters.

Statistical/financial

Risks to the Fund are posed by the performance of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.

The Administering Authority regularly reviews these factors with the Actuary to decide whether the assumptions for assessing solvency are still appropriate.

Smoothing

The use of a smoothing adjustment to the value of the Fund's assets introduces an element of risk, in that the smoothing adjustment may not provide a correct measure of the underlying position. Any adjustment is reviewed at the end of each valuation to ensure it remains within acceptable limits.

Recovery period

Allowing surpluses or deficiencies to be eliminated over a Recovery Period rather than immediately introduces a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency.

Stepping

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process. The Administering Authority's policy is to limit the number of permitted steps as appropriate.

Statement of Investment Principles

Introduction

This is the Statement of Investment Principles (SIP) adopted by Brent Council (the Administering Authority of the Fund) in relation to the proper management of the investment of assets of the Brent Pension Fund.

The SIP meets the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“The Regulations”).

The Council, as Administering Authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council’s Pension Fund Sub-Committee which monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and professional advisers. In addition, the Sub-Committee requires managers to periodically attend its meetings. The Sub-Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government.

The Pension Fund Sub-Committee has delegated the management of the Fund’s investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored.

The Government and the pension fund industry have developed a set of high level principles that set a model for good practice in pension fund investment decision-making and governance. These six principles are as follows:

- effective decision-making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting.

Effective decision-making

Administering authorities should ensure that:

Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Brent Council is the Administering Authority with overall responsibility for the Brent Pension Fund, which it delegates to its Pension Fund Sub-Committee.

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 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.

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.

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.

Members of the Pension Fund Sub-Committee are encouraged to undertake learning and development activities on a regular basis to suitably equip them to undertake their role. In particular, there will be regular training opportunities through attendance at conferences and seminars, and training sessions provided by the incumbent investment fund managers at the quarterly Pension Fund Sub-Committee meetings.

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.

The Chief Finance Officer 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.

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.

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.

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

Clear objectives

An overall investment objective should be set out for the Fund that:

Takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers; and

The attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions.

The key investment objective of the Fund is to maximise performance and so minimise the level of employer contributions required to meet the cost of pension benefits, subject to an appropriate level of risk and liquidity. Over the long term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure as set out in the table below was implemented following the actuarial valuation results as at 31 March 2010. The assets of the Fund are mostly in "growth assets", i.e., those expected to generate additional ('excess') returns over the long term. These include publicly quoted equity, private equity and

infrastructure. The asset allocation also has a small allocation to “cash flow matching” assets in the form of bonds.

The table below shows the asset allocation structure:

Asset Class	Allocation	Benchmark	Approach
Fixed income	15%	6% absolute return	Active
UK equities	13%	FTSE All Share	Passive
UK & Irish smaller companies	4%	FTSE Small Cap	Active
O/seas equities – developed	22%	FTSE AW ex UK	Passive
O/seas equities – EM	8%	MSCI EM	Active
Property	8%	IPD	Active
Private equity	10%	8% absolute return	Active
Hedge funds	5%	LIBOR + 5%	Active
Infrastructure	6%	8% absolute return	Active
Diversified growth	8%	Base Rate + 3.5%	Active
Cash	1%	Base Rate	Active
Total	100%		

The above allocations, ranges and management structure comply with the limits set out in Schedule 1 of the Regulations. The achievement of these benchmark returns should attain a real rate of return of 4% - 5% above inflation per annum over rolling three-year periods. The 2010 Actuarial Valuation assumed a return of gilts plus 3% per annum, giving a total return of 7.5% per annum.

The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against the benchmark with the investment manager. A number of fund managers are appointed to give diversification of investment style and spread of risk.

The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity and infrastructure managers are remunerated through fees based on commitments and also performance related fees.

The investment strategy is considered at least annually, with the next major review of asset allocation expected to be in 2014 following the triennial actuarial valuation.

Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Chief Finance Officer has delegated authority to undertake a quarterly rebalancing of the asset classes should they materially diverge from their target allocations.

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). For overseas equities (developed markets), the manager tracks the FTSE AW Developed World (excl.UK) index. Index tracking has been chosen because passive management is less expensive than active management and the extent to which active management outperforms passive management is unclear, particularly in developed markets.

Active management has been chosen for exposure to overseas equities (emerging markets), UK & Irish smaller companies, because it is considered that there are opportunities for the managers to outperform through stock and sector selection. Active management has also been chosen for fixed income, affording the manager discretion to change the asset allocation using a range of bond-like instruments as permitted to improve performance.

For fixed income, property, UK equities, overseas equities, emerging market equities, 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.

The current fund managers are:

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

A management agreement or subscription agreement is in place for each fund manager, setting out the benchmark and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council.

The Regulations also specify certain limits on investments to promote diversification and access a wider range of asset classes both to spread risk and add to returns. The Pension Fund Sub-Committee has decided that the Brent Fund may not:

- a) invest more than 10% of the Fund in any single holding
- b) invest more than 35% 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) invest more than 15% of the Fund in unlisted securities of companies
- e) contribute more than 5% of the Fund to any single partnership
- f) contribute more than 30% of the Fund to partnerships.

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.

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.

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.

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.

The Fund does not operate a Stock Lending programme.

Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should:

Take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of covenant for participating employers, the risk of their default and longevity risk.

The Fund is required to take investment risk compared to the liabilities to achieve the outperformance required in the assumptions underpinning the actuarial valuation.

The key risks taken are in strategic asset allocation, tactical asset allocation and active management. The sources of return are diverse and to some extent uncorrelated which reduces the overall level of risk.

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.

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.

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

The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways:

- 1) 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.

- 2) 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.
- 3) 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 pensioners', active and deferred 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 (around 70%) are liquid and invested in recognised stock exchanges.

As a long term investor, the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

If the Chief Finance Officer 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.

The Pension Fund maintains a cash balance both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit this cash balance with the Council's banker, NatWest, in an interest-bearing instant access account in the name of the Fund.

Performance assessment

Arrangements should be in place for:

The formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

In setting the overall investment objective and asset allocation and in the award and in the award of mandates to individual investment managers the Pension Fund Sub-Committee has set benchmarks for each asset class.

The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's investment objectives.

The Fund engages the WM Company to provide an independent measurement of investment managers' returns at quarterly and annual intervals. These are used for comparison purposes against specific and peer group benchmarks. The reporting from the WM Company also comprises performance attribution broken down by asset class, and the impacts of asset allocation and stock selection.

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.

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.

The Chief Finance Officer 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 Chief Finance Officer detailing activity and investment performance.

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.

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.

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.

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.

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

Administering authorities should:

Recognise and ensure that their partners in the investment chain adopt the Financial Reporting Council's (FRC) UK Stewardship Code;

Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and

Report periodically to scheme members on the discharge of such responsibilities.

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 Institutional Shareholders' Committee Statement of Principles on 'The Responsibilities of Institutional Shareholders and Agents'. Managers do not make moral judgements on individual stocks.

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.

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.

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.

Transparency and reporting

Administering authorities should:

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and

Provide regular communication to scheme members in the form they consider most appropriate.

The decision-making structure for the Fund has been set out earlier. The key decision-making forum is the Pension Fund Sub-Committee. The minutes of this Sub-Committee are available to the public through the Brent Council website at: www.brent.gov.uk.

The Fund's SIP and other documents relating to investment decision-making and performance will be made available to stakeholders on request.

In accordance with LGPS (Administration) Regulations 2008, the Brent Pension Fund has published a Communications Policy Statement which describes the Fund's policy on:

- providing information to members, employers and representatives
- the format, frequency and method of distributing such information
- the promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

Glossary

Active Management

A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with passive management that seeks to replicate the performance of a selected benchmark.

Actuarial Valuation

A review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

Actuary

An independent qualified consultant who carries out the Actuarial Valuation and advises on new investment strategies.

Administering Authority

A local authority required to maintain a pension fund under LGPS regulations. Within the geographical boundary of the London Borough of Brent this is Brent Council.

Admitted Bodies

An organisation, which, under the Pension Scheme Regulations, is able to apply to the Administering Authority to join the Scheme (e.g., a contractor providing services to the Council or another scheduled body). Upon acceptance, an Admission Agreement is prepared admitting the organisation and allowing its employees to join.

Alternative Investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Asset Allocation / Asset Mix

The apportionment of the Fund's assets between asset classes and/or markets. Asset allocation may be either strategic, i.e., long term, or Tactical, i.e., short term, aiming to take advantage of relative market movements.

Auditor

An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

AVCs

Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Clerical Medical and Equitable Life).

Benchmark

A "notional" fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g., for a global equity fund the benchmark against which it will be measured could be made up 70%/30% by overseas equities/UK equities. A target return is generally expressed as some margin over the benchmark.

Bond

A certificate of debt, paying a fixed rate of interest for a defined period of time, issued by companies, governments or government agencies.

Bulk Transfer

A transfer of a group of members agreed by and taking place between two pension schemes.

Cessation Valuation

A calculation carried out by the Actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

Contingent Liability

A possible loss, subject to confirmation by an event after the Balance Sheet date, where the outcome is uncertain in terms of cost.

Deferred Member

A Pension Fund member who no longer contributes to the Fund but has not yet retired.

Dividends

Income to the Fund on its holdings of UK and overseas shares.

Emerging Markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies that can be traded on public markets.

Final Pay

This is the figure used to calculate most of a member's pension benefits and is normally their pay in the last year before they retire, or one of the previous two years' pay if that amount is higher. For a part-time employee, the figure used is normally the pay they would have received had they worked whole time.

Fixed Interest Securities

Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

FTSE

A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund Manager

A firm of professionals appointed by the Pension Fund Sub-Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.

Funding Target

The amount of assets which the Fund needs to hold at any point in time to meet all benefits promised.

Gilts

Fixed-interest bonds issued by the British government. They are the equivalent of U.S. Treasury securities.

Global Custodian

A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

Guarantor

A body which guarantees to pay for an Admitted Body's liabilities in case of default. For any new Admitted Body wishing to join the Fund, the Administering Authority will require a Guarantor.

Hedge Fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Hedging

A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.

Income Yield

Annual income on an investment divided by its price and expressed as a percentage.

Index

A measure of the value of a stock market based on a representative sample of stocks. An index is often used as a benchmark for the performance of a group of shares or bonds.

Index-Linked Securities

Investments which generate returns in line with an index.

Investment Adviser

A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

LGPS

Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme.

LIBOR

London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.

Mandate

A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g., targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).

Market Value

The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

Orphan Liabilities

Residual liabilities of employers from whom no further funding can be obtained.

Outperformance / underperformance

The difference in returns gained by a particular fund against the “average” fund or an index over a specified time period, i.e., a target for a fund may be outperformance of a given benchmark over a three-year period.

Performance

A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the “average” fund of a particular benchmark.

Pooled Investment Fund

A collective investment scheme that works by pooling money from different individual investors.

Portfolio

Term used to describe all investments held.

Private Equity

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Recovery Period

Timescale allowed over which surpluses or deficiencies to the Fund can be eliminated.

Regulations

The Scheme is governed by Regulation approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.

Risk

Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more “stable” investments before investors will buy them.

Scheduled Bodies

These are organisations as listed in the Local Government Pension Scheme Regulations 1997 (Schedule 2) such as County Councils and District Councils, etc., the employees of which may join the Scheme as of right.

Securities

Investment in company shares, fixed interest or index-linked stocks.

Solvency

When the Fund’s assets are greater than or equal to 100% of the Funding Target.

Statement of Investment Principles

Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g., risk, balance between real and monetary assets, realisability of assets, etc.).

Transfer Value

Capital value transferred to or from a scheme in respect of a contributor’s previous periods of pensionable employment.

Unit Trust

A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.

Yield Curve

A graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. For bonds, it typically compares the two- or five-year Treasury with the 30-year Treasury.



cutting through complexity™

Report to those charged with governance (ISA 260) 2012/13

Page 101

Brent Pension Fund

September 2013 - DRAFT



The contacts at KPMG in connection with this report are:

Philip Johnstone

Director

KPMG LLP (UK)

Tel: 020 7311 2091

philip.johnstone@kpmg.co.uk

Gary McLeod

Manager

KPMG LLP (UK)

Tel: 020 7311 2061

gary.mcleod@kpmg.co.uk

Daniel Wood

Assistant Manager

KPMG LLP (UK)

Tel: 020 7311 2317

daniel.wood@kpmg.co.uk

Report sections

■ Introduction	2
■ Headlines	3
■ Pension fund accounts	4

Appendices

1. Key issues and recommendations	7
2. Audit differences	8
3. Declaration of independence and objectivity	9

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises the key issues identified during our audit of London Borough of Brent Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

Scope of this report

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the Audit Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Audit of the pension fund

As with the main audit of the London Borough of Brent ("the Authority"), our audit of the Fund follows a four stage audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during June 2013 (interim audit) and July 2013 (year end audit).

We carried out the following work (in conjunction with work performed in respect of the audit of the main Authority accounts):

Control Evaluation

- Evaluate entity level internal controls.
- Evaluate and test selected controls over key financial systems.
- Review accounts production process.

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.

We are now in the final phase of the audit. Our responsibilities under ISA 260 in relation to the Authority as administering authority are discharged through this report. This includes the following:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's accounts in more detail.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.



Section two Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013.</p> <p>At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p>
Audit adjustments	<p>We are pleased to report that our audit of the Fund's financial statements identified only one audit adjustment which was a minor presentational adjustment to a disclosure note. The Authority has agreed that this will be adjusted.</p>
Accounts production and audit process	<p>The Authority has good processes in place for the production of the Fund's financial statements and adequate supporting working papers.</p> <p>Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
Control environment	<p>Controls over the Fund's key financial systems are sound. We have raised one minor recommendations from our work, which is outlined in Appendix 1.</p>



Section three

Pension fund accounts - proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013.

Page 105

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 25 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *CIPFA/LASAAC Code of Practice on Local Authority Accounting the United Kingdom 2012/13*. We understand that the Authority will be addressing these where significant.

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete except for final reviews of the audit work and completion of our review of post balance sheet events.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

The Authority has good processes in place for the production of the Fund's financial statements and adequate supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Fund has good arrangements for the production of the financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013. There were no material amendments required to the accounts.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , issued and discussed with the Pensions Accountant, set out our working paper requirements for the audit. The quality of working papers provided generally met the standards specified in our <i>Accounts Audit Protocol</i> , however there were some instances where further clarity was needed to understand the detail (for example trial balance and analytical review).
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.

Element	Commentary
Response to audit queries	Officers resolved audit queries in a reasonable time.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of London Borough of Brent Pension Fund for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Brent, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements'.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

We have given the recommendation a risk rating and agreed what action management will need to take.

The Authority should monitor progress in addressing our recommendation.

We will formally follow up this recommendation as part of next year's audit.

Page 108

Priority rating for recommendations		
<p>1 <i>Priority one:</i> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	3	<p>Investment assets are held in the general ledger at cost meaning that changes to the market value of the investments are not accounted for in the general ledger.</p> <p>It is important that there is a reconciliation from cost of investments held in the general ledger to current market value shown in the net assets statement. This reconciliation is not currently produced.</p> <p>It is recommended a reconciliation is produced to reconcile the cost of investments to the current market value.</p>	<p>The Council were able to provide a comprehensive suite of external fund manager reports to evidence the market values included in the accounts.</p> <p>However, it is acknowledged that the Council were unable to provide a year-end working paper substantiated by reports from the fund managers to clearly show the link between how the book values recorded in the general ledger "reconcile" with the market values included in the accounts. This will be produced in future years.</p> <p>Head of Exchequer and Investment 31 March 2014</p>



Appendices

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

There are no uncorrected non-trivial audit differences. Corrected audit differences are presentational only.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the case of the Fund is the Public Accounts and Audit Select Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

The audit did not identify any material adjustments.

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Public Accounts and Audit Select Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Brent Pension Fund for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Brent Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff, other than set out in the next paragraph. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



cutting through complexity™

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

 Brent	<p style="text-align: center;">Pension Fund Sub-Committee 7 October 2013</p> <p style="text-align: center;">Report from the Deputy Director of Finance</p>
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 June 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 fallen in value by £3.0m from £543.8m to £540.8m during the quarter ended 30 June 2013, and the Fund's return of -0.7% underperformed its quarterly benchmark of 0.4%. The poor performance can be attributed to results in Emerging Market Equities, UK Equities, Fixed Income and Diversified Growth.
- b) The drop in the Fund's overall value during the quarter disguises positive returns in the asset classes of Hedge Funds, Property, Private Equity, Infrastructure and Overseas Equities.
- c) The poor performance for the quarter ended 30 June 2013 has been more than offset during the months of July and August 2013, where the Fund has increased in value by an estimated £5.9m to £546.7m.
- d) It should be noted that the Fund's quarterly return of -0.7% was better than the WM Local Authority average due to Brent's asset allocation with its relatively low exposure to Equities which had an overall negative quarter and high exposure to Alternatives which benefited from a positive performance, placing the Brent Pension Fund at the 44th percentile for the quarter ended 30 June 2013.

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 June 2013

- 3.1 During the quarter ended 30 June 2013, the prospect of less quantitative easing (QE) has seen bond markets sell off and other asset classes have also suffered, notably commodities and most emerging market investments. The market reaction to the prospect of a gradual withdrawal of QE in the US as a result of improving economic indicators has been severe.
- 3.2 A market review for the quarter ended 30 June 2013 which should be read in conjunction with a market update for July and August 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 30 June 2012	Period ended 30 June 2013
1 year	90 th	88 th
3 years	100 th	100 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 an improvement in investment returns during the periods ended 30 June 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 90th to 88th percentile. Whilst this progress is encouraging it is nonetheless quite limited and efforts will be made to build on this improved performance to ensure that it continues over the coming period, and this is reflected in the latest quarter ended 30 June 2013 which places the Brent Pension Fund at the 44th percentile.

Table 1: Asset allocation as at 30 June 2013 compared to the benchmark

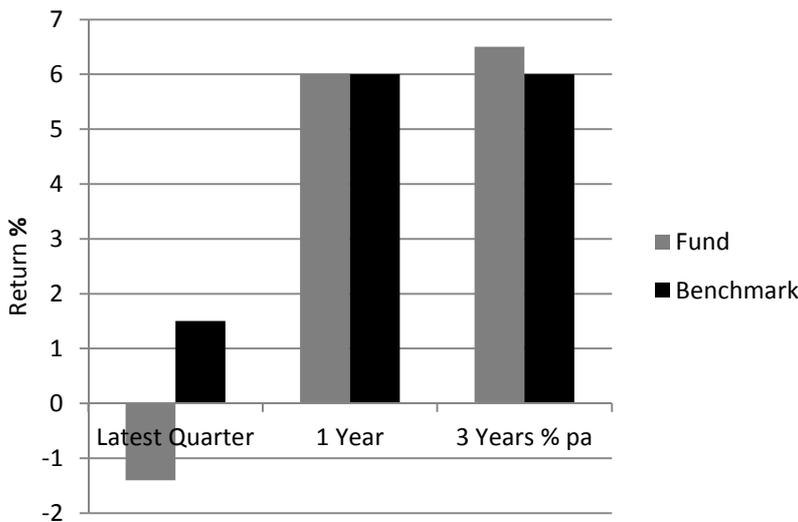
Market (1)	Market Value 30/6/13 £M (2)	Market Value 30/6/13 % (3)	WM LA Average 30/6/13 % (4)	Fund Benchmark 30/6/13 % (5)	Market Value 31/3/13 £M (6)	Market Value 31/3/13 % (7)	WM LA Average 31/3/13 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	81.8	15.1	17.0	15.0	82.9	15.3	17.6
Equities							
UK – Legal & General	76.9	14.2	26.5	13.0	78.0	14.3	24.4
UK - Smaller Companies Fund Henderson	21.4	4.0	*	4.0	21.4	3.9	*
O/seas – developed Legal & General	126.2	23.3	33.0	22.0	124.8	23.0	32.9
O/seas – emerging Dimensional	33.0	6.1	6.0	8.0	36.9	6.8	5.7
Property							
Aviva	33.6	6.2	6.6	8.0	33.3	6.1	6.8
Private Equity							
Capital Dynamics	70.0	12.9	3.8	10.0	68.4	12.6	4.1
Yorkshire Fund	1.1	0.2	*		1.1	0.2	*
Hedge Funds							
Fauchier	27.9	5.2	1.7	5.0	27.2	5.0	2.3
Infrastructure							
Alinda	16.6	3.1	0.7	6.0	16.6	3.1	1.0
Capital Dynamics	15.3	2.8	*		12.8	2.3	*
Henderson PFI Fund II	0.9	0.2	*		0.9	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	33.0	6.1	1.5	8.0	34.0	6.2	2.0
Cash							
	3.1	0.6	3.2	1.0	5.5	1.0	3.2
Total	540.8	100.0	100.0	100.0	543.8	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.

Manager performance relative to benchmark

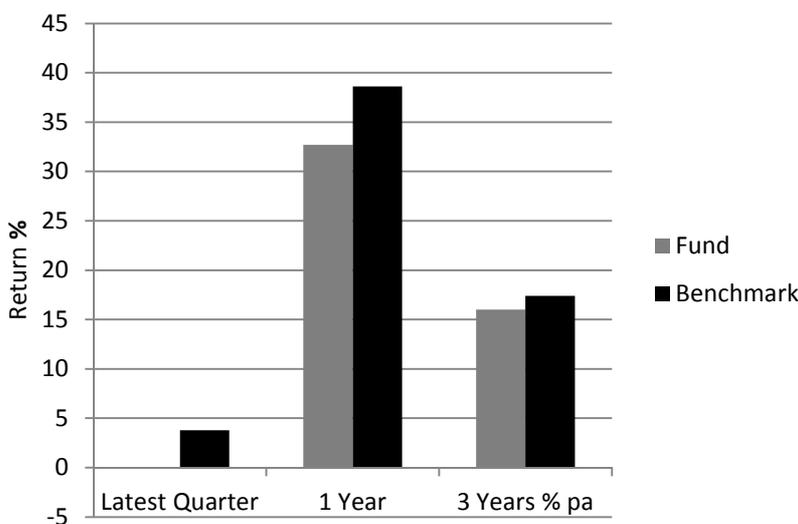
3.7 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of June 2013.

Henderson – Total Return Bond Fund



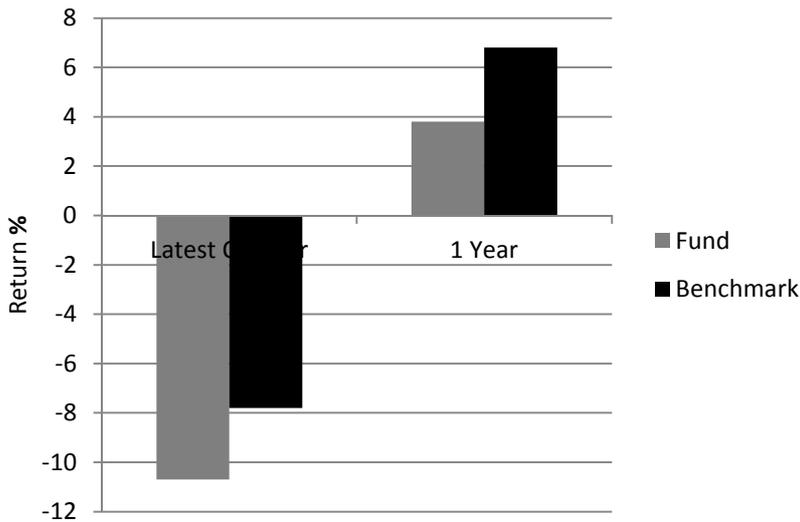
Even though the latest quarter has been negative, the Henderson Total Return Bond Fund has delivered a performance which is consistent with its 6% p.a. absolute return benchmark over 1 Year and shows a marginal outperformance over 3 Years.

Henderson – UK & Irish Smaller Companies Fund



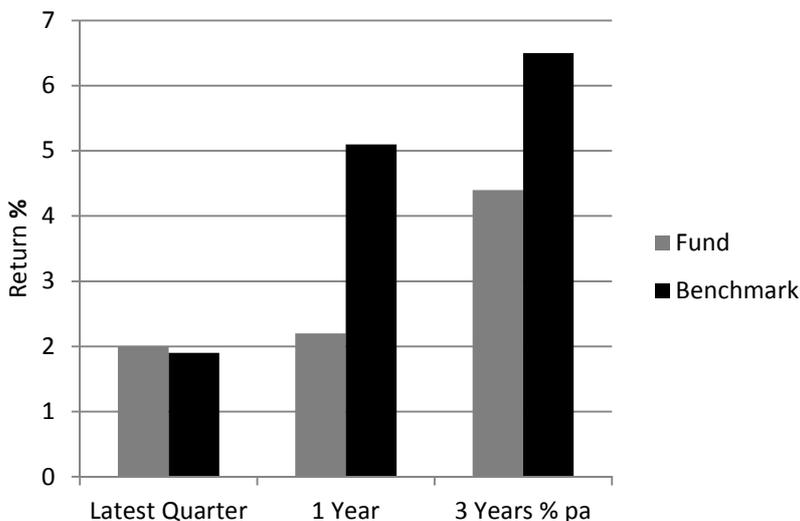
Henderson's UK & Irish Smaller Companies Fund has delivered a strongly positive return over 1 Year and 3 Years. However, the Fund has underperformed against its benchmark FTSE SmallCap Index. The benchmark has changed significantly over time. In particular, there has been a significant reduction in the number of companies and an increased concentration within the benchmark which has increasingly called into question the relevance of the FTSE SmallCap Index as a measure of the UK small cap investment universe. This is something Henderson are currently in the process of reviewing.

Dimensional – Emerging Markets Value Fund



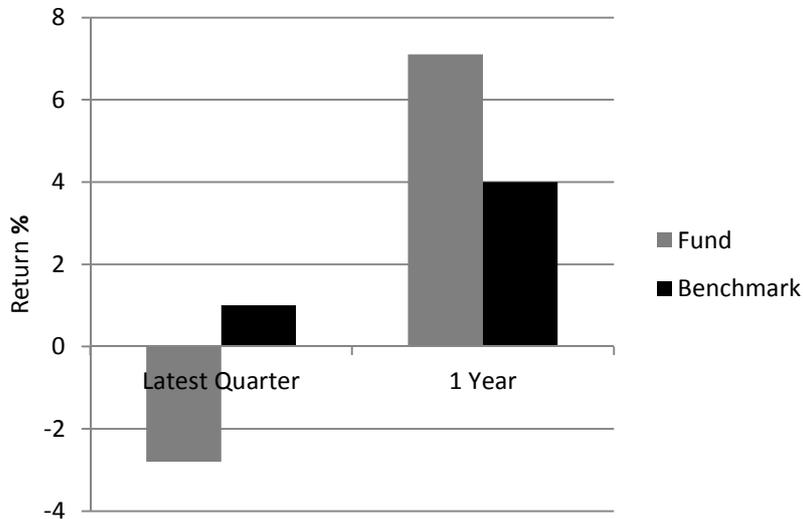
Dimensional's Emerging Markets Value Fund has delivered a disappointing investment return in both absolute terms and relative to its benchmark MSCI Emerging Markets Index. Even though Dimensional are one of the Fund's more recently appointed fund managers with an investment start date of July 2011, their performance will be closely scrutinised over the coming period.

Aviva – Property



Aviva's property portfolio has shown an encouraging pick-up in performance during the latest quarter, whilst lagging behind its IPD All Properties Index based benchmark over 1 Year and 3 Years.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) significantly outperformed its benchmark Base Rate plus 3.5% p.a. over 1 Year, despite including a difficult latest quarter which saw negative returns on most asset classes and notably due to the allocations to gold and emerging market bonds. The Baillie Gifford DGF is the Fund's newest investment acquisition since June 2012.

3.8 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 June 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/6/13			Year Ended 30/6/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	-1.4	1.5	-3.9	6.0	6.0	4.0	Absolute return 6% p.a.
Equities							
UK – Legal & General	-1.6	-1.7	-0.6	18.1	17.9	20.6	FTSE All Share
UK - Small Companies Henderson	-0.1	3.8	n/a	32.7	38.6	n/a	FTSE Small Cap
O/seas – developed Legal & General	1.1	1.1	-0.4	23.8	23.9	24.9	FTSE Dev World ex UK
O/seas – emerging Dimensional	-10.7	-7.8	-7.5	3.8	6.8	12.1	MSCI Emerging Markets
Property							
Aviva	2.0	1.9	2.1	2.2	5.1	4.5	IPD All Properties Index
Private Equity							
Capital Dynamics	1.5	2.0	2.8	5.9	8.0	12.6	Absolute return 8% p.a.
Yorkshire Fund Managers	-1.0	2.0	*	5.9	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	2.6	1.4	0.2	11.8	5.6	8.1	LIBOR + 5% p.a.
Infrastructure							
Alinda	-0.5	2.0	-2.0	5.1	8.0	5.7	Absolute return 8% p.a.
Capital Dynamics	1.5	2.0	*	5.9	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	8.7	2.0	*	-1.8	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	-2.8	1.0	-1.5	7.1	4.0	9.5	Base Rate + 3.5% p.a.
Cash							
	0.1	0.1	0.5	0.5	0.5	2.7	Base Rate
Total	-0.7	0.4	-0.7	12.7	12.7	15.1	

3.9 The Fund's overall return of -0.7% underperformed its quarterly benchmark of 0.4%. Whilst Fund of Hedge Funds and Property outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Private Equity, Infrastructure, Diversified Growth and Emerging Market Equities underperformed against their benchmarks.

- 3.10 The Fund outperformed the WM Local Authority average in the asset class of Fixed Income, Overseas Equities, Hedge Funds and Infrastructure. The Fund underperformed the WM Local Authority average in the asset classes of Emerging Market Equities, Diversified Growth, Private Equity and UK Equities.
- 3.11 Over one year, the Fund return of 12.7% was identical to its benchmark. Whilst Hedge Funds and Diversified Growth outperformed their respective benchmarks, UK Smaller Companies, Private Equity, Infrastructure, Property and Emerging Market Equities underperformed against their benchmarks. However, the Brent Fund's return of 12.7% has underperformed when compared to the WM Local Authority average fund return of 15.1%, 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.

Compliance with statutory investment limits

- 3.12 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	Statutory limit under regulation	Actual exposure at 30 June 2013	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	23%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	19%	Yes

Indicative performance of the Fund since June 2013

3.13 Following the quarter ended 30 June 2013, the Fund has increased in value by an estimated £5.9m:

	As at 31 August 2013 £M	As at 30 June 2013 £M	Movement
Fixed Income			
Henderson	82.1	81.8	↑
Equities			
UK - Legal & General	80.1	76.9	↑
UK - Small Companies Henderson	23.2	21.4	↑
O/seas – developed Legal & General	127.1	126.2	↑
O/seas – emerging markets Dimensional	32.5	33.0	↓
Property			
Aviva	33.6	33.6	=
Private Equity			
Capital Dynamics	69.7	70.0	↓
Yorkshire Fund Managers	1.1	1.1	=
Hedge Funds			
Fauchier	28.3	27.9	↑
Infrastructure			
Alinda	17.8	16.6	↑
Capital Dynamics	15.3	15.3	=
Henderson PFI Fund II	0.9	0.9	=
Pooled Multi Asset			
Baillie Gifford DGF	33.1	33.0	↑
Cash			
	1.9	3.1	↓
Total	546.7	540.8	↑

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 – June 2013 quarter report
Legal & General – June 2013 quarter report
Fauchier Partners – June 2013 quarter report
Dimensional Asset Management – June 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

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q2 2013

22 July 2013

Peter Davies

AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

peter.davies@allenbridgeepic.com

www.allenbridgeepic.com

This document is directed only at the person(s) identified above on the basis of our investment advisory agreement with you. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. It is issued by AllenbridgeEpic Investment Advisers Limited, an appointed representative of Exception Capital LLP which is Authorised and Regulated by the Financial Conduct Authority.

We understand that your preference is for your adviser to issue investment advice in the first person. We recognise that this preference is a matter of style only and is not intended to alter the fact that investment advice will be given by AllenbridgeEpic Investment Advisers Limited, an authorised person under FSMA as required by the Pensions Act.

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP.

BRENT COUNCIL PENSION FUND
Quarterly Review, April – June 2013

The Economy

1. The UK reported growth of +0.3% in the first quarter – better than many had predicted – and estimates for the full year have been increased slightly. In the US, the monthly jobs data has beaten expectations in each month since April, and the Federal Reserve has raised its estimates of GDP growth to 2.45% this year and 3.25% in 2014, which are better than consensus estimates (see table below). Japan also saw a stronger economy than expected in Q1, but the Eurozone remains becalmed, and China looks to be achieving slower growth than in recent years.

(In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in April).

Consensus real growth (%)						Consumer prices latest (%)
	2010	2011	2012	2013E	2014E	
UK	+1.6	+0.9	-0.1	+1.0 (+0.7)	+1.6 (+1.5)	+2.7 (CPI)
USA	+2.9	+1.7	+2.2	+1.9 (+2.1)	+2.8 (+2.7)	+1.5
Eurozone	+1.7	+1.5	-0.5	-0.6 (-0.5)	+0.8 (+0.9)	+1.5
Japan	+4.2	-0.7	+1.9	+1.8 (+1.3)	+1.6 (+1.3)	+0.1
China	+10.3	+9.2	+7.8	+7.5 (+8.5)	N/A	+2.7

[Source: The Economist, 06.07.13]

2. Early in May, the European Central Bank cut its base rate from 0.75% to 0.5%, and indicated in July that it expects to maintain this rate for the foreseeable future. The Bank of England kept its base rate at 0.5%, and in early July the new Governor, Mark Carney, said that the market's forecasts that the rate would be increased before 2015 were misplaced. This caused a fall in sterling relative to the dollar.
3. The statements from the Federal Reserve Bank have had the greatest impact on Equity and Bond markets, however. On May 22nd, their minutes showed that several members of the committee were envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economy continued its recovery. While not new, this reminded markets that the buoyancy of markets had been due partly to the massive injections of liquidity from central banks. Equity and bond markets both fell quite sharply on this news. In late June the Fed was more explicit about its intentions, saying that it expected to slow its rate of monthly purchases by the end of 2013, and cease completely by mid-2014 if the US economy grew as expected. This caused a further setback in equity and – more particularly – bond markets.

4. News from China has also affected sentiment in markets, most notably in the Pacific and Emerging markets. A weak Manufacturing Purchasing Managers Index reading in May coincided with the Fed's first statement on QE in May, and the June reading was also disappointing. Finally, late in June interbank rates in China rose very sharply as there appeared to be signs of a credit crisis in the banking system. It was only a few days later that the Chinese central bank stepped in to normalise the situation.
5. In Japan, Prime Minister Abe launched the third of his economic 'arrows', this one dealing with structural reform. Observers were unimpressed by the lack of detail in the announcement, and deduced that he may be playing down the scale of his plans until after the Upper House elections have taken place in July.

Markets

6. **Equities** had advanced steadily during April and May – with several indices reaching their highest levels since 2008 – but the May 22nd news from the Federal Reserve (see para 3) caused a sharp setback everywhere. Most notably, the Japanese equity market fell by 7% the following day, on fears that rising bond yields would inflict heavy losses on the portfolios of regional banks. By the end of June, and after the second statement from the Federal Reserve, most equity markets had surrendered their earlier gains and registered slight losses for the quarter. (See table below).

	Capital return (in £, %) to 30.06.13		
Weight %	Region	3 months	12 months
100.0	FTSE All-World Index	-1.0	+18.1
51.5	FTSE All-World North America	+1.7	+20.8
8.8	FTSE All-World Japan	+4.2	+23.5
12.1	FTSE All-World Asia Pacific ex Japan	-8.4	+9.9
16.3	FTSE All-World Europe (ex-UK)	-1.9	+22.4
7.8	FTSE All-World UK	-4.0	+12.1
9.7	FTSE All-World Emerging Markets	-8.8	+3.9

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

7. Emerging Markets continued to be the weakest region for equities. In part this was caused by the weakness of the Japanese yen, which threatened the competitiveness of exports from, for example, South Korea. The slowdown in China's economy led to a fall in commodity prices, which in turn affected the profitability of commodity producers in the Emerging Markets. The street protests in Turkey and Brazil in June, followed by the ousting of the Egyptian President in July, reminded investors of the political risks involved in Emerging Markets.

8. Looking at the performance of the different industry groups during the quarter, the weakness of commodity prices inevitably dragged down the Basic Materials sector, which is by far the worst performer over the past 12 months also. The strong rise in the Technology sector during the quarter was driven by the 18% gain from the Software & Computer Services sub-group.

Capital return (in £, %) to 30.06.13		
Industry Group	3 months	12 months
Health Care	+2.4	+28.5
Financials	-0.6	+27.1
Consumer Services	+1.8	+26.8
Industrials	-0.6	+21.2
Consumer Goods	-0.3	+21.1
FTSE All-World	-1.0	+18.1
Technology	+7.9	+10.5
Telecommunications	+1.2	+9.9
Utilities	-2.3	+3.9
Oil & Gas	-4.1	+8.4
Basic Materials	-10.8	-4.4

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

9. **Bond markets** fell heavily after the May 22nd Fed announcement, and yields continued to rise for the rest of the quarter. This effect was even more pronounced in the corporate and high-yield bond markets, which had previously been driven to extremely high levels as investors searched for yield. Worries about the peripheral Eurozone bond markets resurfaced when the Portuguese Finance Minister resigned his post after disagreements about the depth of the austerity programme.
10. The table below shows that 10-year government bond yields in US, UK and Germany rose by 44 – 64 basis points during the quarter. A rise of 0.5% in the yield on a 10-year bond results in a fall of about 4% in its price.

10-year government bond yields (%)					
	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13
US	3.34	1.88	1.76	1.85	2.49
UK	3.39	1.98	1.85	1.78	2.45
Germany	2.92	1.83	1.32	1.29	1.73
Japan	1.12	0.98	0.79	0.57	0.86

[Source: Financial Times]

Generic UK 10 Year Yield



Currencies

11. The yen continued to weaken against the dollar, crossing the psychologically significant level of 100 per \$ in May, and ending the quarter close to this level after fluctuating in the range 95-104 per \$. Emerging Market currencies began to weaken on the fall in commodity prices, notably Brazil (-17%), Chile (-14%) and Mexico (-11%) relative to the dollar.

	31.03.13	30.06.13	£ move
\$ per £	1.518	1.517	unch
€ per £	1.182	1.167	- 1.3%
Yen per £ (see graph overleaf)	142.8	150.7	+ 5.5%

GBP vs JPY



Commodities

12. The **gold** price fell 25%, from \$1600 to \$1200 per oz, during the quarter. The decline was sparked initially by the Federal Reserve's May statement about the likely tapering of QE, as investors saw less need to hold an inflation hedge in the form of gold. The sell-off gathered pace during June, with heavy selling of Exchange Traded Funds (ETFs) used by private investors as a play on the gold price. **Copper** also fell to a 3-year low, on prospects for reduced demand from China. In the **oil** market, the price of Brent Crude fell by some 7% during the quarter.

Gold





Property

13. The sluggishness of UK Commercial Property values is shown in the IPD Monthly Index data to end-June. The total return (including rental income) for the 12 months averaged just 4.1%. By sector the total returns were:

Offices	+6.0%
Industrial	+5.4%
Retail	+2.4%

Outlook

14. In July equity markets have recovered most of the ground they had lost since the Federal Reserve's first statement on tapering Quantitative Easing on May 22nd. Government bond markets have also stabilised at yields some 0.7% above their lowest levels. Now that investors have become used to the idea that QE by the US will end during 2014, their focus has turned to the outlook for Chinese economic growth. If this can hold above 7.5% this year and next, many of the worst fears for commodities and Emerging Markets will have been allayed. Assuming China maintains this level of growth, I expect equities to trade in their recent range for the remainder of 2013. Bond yields, meanwhile, could move higher if growth in the US brings QE to an earlier end than currently envisaged.

Peter Davies
 Senior Adviser – AllenbridgeEpic Investment Advisers
 22nd July 2013

MARKET UPDATE PREPARED FOR

Brent Council Pension Fund

July and August 2013

9 September 2013

Peter Davies

AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

peter.davies@allenbridgeepic.com

www.allenbridgeepic.com

This document is directed only at the person(s) identified above on the basis of our investment advisory agreement with you. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. It is issued by AllenbridgeEpic Investment Advisers Limited, an appointed representative of Exception Capital LLP which is Authorised and Regulated by the Financial Conduct Authority.

We understand that your preference is for your adviser to issue investment advice in the first person. We recognise that this preference is a matter of style only and is not intended to alter the fact that investment advice will be given by AllenbridgeEpic Investment Advisers Limited, an authorised person under FSMA as required by the Pensions Act.

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP.

**Report from the Investment Adviser
Update for July and August 2013**

This report should be read in conjunction with the Quarterly Review, dated July 22nd, which was circulated to Committee members in July, and is appended to this report. The tables in this report show market movements during the two-month period from end-June to end-August, and link this to the earlier quarterly data, to show movements from end-March to end-August.

Equity markets recorded gains of up to 5% in July, but most of this was lost in August, with the result that Global Equities ended the 2-month period unchanged. As shown in the following table, UK and European Equities gained more than 3%, while Japan lost a similar amount, and Emerging Markets continued to lag all other regions.

Capital return (in £, %) to 31.08.13			
Weight %	Region	2 months	5 months
100.0	FTSE All-World Index	+0.3	-0.7
50.9	FTSE All-World North America	+0.1	+1.8
8.4	FTSE All-World Japan	-3.2	+0.9
12.5	FTSE All-World Asia Pacific ex Japan	-1.4	-9.7
16.6	FTSE All-World Europe (ex-UK)	+ 3.3	+1.3
8.0	FTSE All-World UK	+3.3	-0.8
10.1	FTSE All-World Emerging Markets	-4.7	-13.1

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

Emerging Markets have continued the weakness described in paragraph 7 of the Quarterly Review, with the additional burden of investment flows out of the markets in anticipation of the slowdown of Quantitative Easing (QE) by the Federal Reserve. This has also caused further falls in Emerging Market currencies relative to the dollar – notably the Indian rupee.

By sector, there has been no great divergence during the past two months, although Basic Materials (+3.9%) have recovered some of their earlier decline while Utilities (-3.3%) were the weakest industrial sector.

Bond markets have continued to weaken, as the planned ‘tapering’ of QE comes nearer, but also – more positively – because the outlook for GDP growth is improving in UK and Europe, while remaining steady in the United States. The table below shows that, since the end of March 2013, 10-year yields have risen by 1% in the US and UK, and by 0.5% in Germany. By increasing the discount rate used, this will have reduced the present value of pension scheme liabilities significantly.

10-year government bond yields (%)				
	Dec 2012	Mar 2013	June 2013	August 2013
US	1.76	1.85	2.49	2.76
UK	1.85	1.78	2.45	2.79
Germany	1.32	1.29	1.73	1.86
Japan	0.79	0.57	0.86	0.73

[Source: Financial Times]

In **commodities**, the unrest in Egypt and Syria has caused a 10% rise in the price of oil, while gold has also rallied from \$1200 to \$1400 since the end of June.

In the **currency** markets, there was little change in the major cross-rates, although the dollar weakened marginally.

	30.06.13	31.08.13	£ move
\$ per £	1.517	1.547	+2.0%
€ per £	1.167	1.173	+0.5%
¥ per £	150.7	151.8	+0.7%

[Source: Financial Times]

Peter Davies
 Senior Adviser – AllenbridgeEpic Investment Advisers
 September 9th, 2013