



Brent Pension Fund Sub-Committee

Thursday, 24 September 2009 at 6.30 pm
Committee Room 3, Brent Town Hall, Forty Lane,
Wembley, HA9 9HD

Membership:

Members

Councillors:

Crane (Chair)
HB Patel (Vice-Chair)
Mrs Bacchus
Brown
Detre
Hashmi
CJ Patel

first alternates

Councillors:

Van Kalwala
Baker
Beswick
Wharton
HM Patel
Dunn
Pagnamenta

Second alternates

Councillors:

John
Mistry
Butt
Castle
Colwill
Bessong
Green

Non Voting Co-opted Members

George Fraser GMBU
Ashok Patel College of North West London

For further information contact: Joe Kwateng, Democratic Services Officer,
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:

www.brent.gov.uk/committees

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
1 Declarations of personal and prejudicial interests	
Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2 Minutes of the previous meeting	1 - 8
Minutes of the last meetings held on 23 June 2009 and 9 July 2009.	
3 Matters arising	
4 Deputations (if any)	
5 Pension Fund Accounts 2008/09	9 - 56
The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. Members will be aware that the Brent Pension Fund has produced a separate Annual Report and Accounts for many years. The draft 2008/09 Pension Fund accounts were presented to members on 23 rd June. The final accounts are attached as part of Appendix 2 (pages). The DCLG has stipulated that a number of existing documents should be included with the report, as well as a number of new requirements. It was hoped that a Final Report and Accounts could be presented to members at this meeting, but the late and very detailed requirements of the CIPFA Guidance, which remains in draft, has meant that some items will be added later. I have attached an appendix to this report.	
a) Audit Commission Annual Governance report	57 - 76
This report introduces the Annual Governance Report issued by the Audit Commission as part of the audit of the Pension Fund accounts for 2008/09. An appendix to this report is attached.	
6 WM - Annual Performance report 2008/09	
Karen Thrumble from WM will attend the meeting for this item.	

I have circulated 2 reports from WM which were separately produced to members of the Sub-Committee only. Few spare copies are available for inspection. Please contact the Democratic Services Officer on 020 8937 1354 if you wish to inspect any of the reports.

7 Report from AllianceBernstein Ltd.

Representatives of AllianceBernstein, George Blunden and Antony Bor will attend the meeting for this item.

I have circulated copies of the report from AllianceBernstein Ltd which were separately produced, to members of the Sub-Committee only. Few spare copies are available for inspection. Please contact the Democratic Services Officer on 020 8937 1354 if you wish to inspect any of the reports.

8 Monitoring report on fund activity for the quarter ended 30th June 2009 77 - 98

This report provides a summary of fund activity during the quarter ended 30 June 2009. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter.

9 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.

10 Date of Next Meeting

The next scheduled meeting of the Sub-Committee is on Tuesday 24 November 2009 at 6.30pm.



- Please remember to **SWITCH OFF** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.
 - Toilets are available on the second floor.
 - Catering facilities can be found on the first floor near the Grand Hall.
 - A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge

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MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE

Tuesday 23 June 2009 at 6.30 pm

PRESENT: Councillor Crane (Chair), Councillor H B Patel (Vice Chair) and Councillors Bacchus, Detre, Hashmi and C J Patel.

ALSO PRESENT: Valentine Furniss (Independent Adviser), Duncan McLeod (Director of Finance & Corporate Resources) and Martin Spriggs (Head of Exchequer and Investment).

1. **Declarations of Interest**

None declared.

2. **Minutes of Previous Meeting**

RESOLVED:

that the minutes of the meeting held on 3 March 2009 be approved as an accurate record.

3. **Matters Arising**

Item 4 – Report and Presentation from Henderson Global Investors

Martin Spriggs (Head of Exchequer and Investment) reported that the appointment for Infrastructure Manager would take place on Thursday 9th July 2009 at 9.30am. The report for the meeting marked private and confidential had been sent to members only.

3. **Monitoring Report on Fund Activity for the Quarter Ended 31 December 2008**

Martin Spriggs introduced the summary of fund activity during the quarter ended 31st March 2009 and answered questions from members. Martin Spriggs stated that the fund had outperformed its benchmark over the quarter (0.7%) mainly as a result of asset allocation, the termination of the currency mandate and overweighting of hedge fund and private equity exposures. The Fund outperformed the average local authority fund (1.5%) as a result of similar issues. Over one year, the Fund underperformed its benchmark (-5.0%) and the average fund (-6.1%) as a result of poor manager performance in fixed interest, global equities, currency and GTAA. He added that although the GDP had shrunk and interest rates were expected to remain low, there were signs that the economy had 'bottomed out' in March/April, but recovery was expected to be slow. He continued that equity markets had risen during April and May as investors focused on low share prices and the possibility that the worst falls of the recession may have occurred. Martin Spriggs then gave a summary of fund managers' outlook.

Valentine Furniss (Independent Adviser) briefed members on the economic and market background. He commented that the UK and global economies should begin to recover in the first quarter of 2010 and this should be reflected in the market place in the final quarter of

2009. He stressed that, although most markets had demonstrated recent and worthwhile recoveries, the underlying economies they represented remained shaky. The Independent Adviser was of the view that when economies eventually recovered the leaders were likely to be the USA and Germany in the Western Hemisphere and China and certain emerging markets in the Eastern Hemisphere

RESOLVED:

that the report from the Head of Exchequer and Investment be noted.

4. Report and Presentation from Henderson Global Investors (HGI)

Kevin Adams (Head of Institutional Fixed Income) and Mark Fulwood (Client Director) introduced the presentation and answered questions from members on HGI, fixed income market review, Brent portfolio and fixed income market outlook. In respect of fixed income market review, they informed that for the 6 months to 31 March 2009, market returns had been below the average mainly due to weaknesses in the banking sector. They continued that for the 2 months to 31 May 2009, the trend had been reversed with secured loans adding value. Members noted that the fund value had fallen from £78.8m (31 December 2008) to £75.9m (31 March 2009) but by 31 May 2009 it had risen to £77.8 million. They clarified that the key activities that impacted on Brent's portfolio were secured loans, credit and holdings in UK and US inflation-linked portfolio. They also reported that policy actions taken to address the current economic difficulties appeared to have averted a 1930's style depression and although there were green shoots of recovery they were scant and the rate of growth was not fast.

In answer to a member's question on the portfolio's performance below the benchmark for the quarter, Mark Fulwood stated that the figures were largely due to unexpected events arising from secured loans and indiscriminate selling. In response to questions by the Director of Finance & Corporate Resources on private finance initiatives (PFI), the representatives confirmed that HG had put in place measures which would prevent the recurrence of problems encountered with PFI schemes. They added that the investment with J Laing was sound and that HGI were in close consultation with pension fund trustees

The Chair thanked HGI for their report and presentation.

RESOLVED:

that the report from Henderson Global Investors be noted.

5. Report and Presentation from Blackrock Investment Management

Pete Rosenbauer, Honor Solomon, Catriona Allen and Ashok Parekh introduced the presentation and answered questions from members on Blackrock's offer to purchase Barclays Global investment (BGI), changes within the company including support for existing teams, a review of the market, performance, and the outlook for the future. Pete Rosenbauer informed members that the acquisition would bring

together two market leaders to create an extraordinary investment platform with ability to develop investment solutions for clients.

Catriona Allen informed members that the European economy was still in a recession with banking and financials in turmoil against the backdrop of limited and expensive credit availability. She added that the European real estate market remained weak and challenging with rising vacancies and falling rents. In contrast, the UK direct real estate markets were beginning to show signs of yield stabilisation and was expected to recover in 2010.

In responding to questions from the Sub-Committee, Peter Rosenbauer confirmed that Blackrock would concentrate on ensuring that the interest of clients was paramount. He continued that a well resourced team with full support would be in place to ensure that investment continuity and focus did not suffer.

The Chair thanked Blackrock for their report and presentation.

RESOLVED:

that the report from Blackrock Investment Management be noted.

7. **Pension Fund Accounts for 2008/09**

Director of Finance of Finance and Corporate Resources Duncan McLeod introduced the draft Pension Fund accounts for 2008/09 and the revised external audit arrangements. This was in accordance with the Department for Communities and Local Government (DCLG) regulations introduced in June 2007 which required each local government pension fund to produce a separate annual report and accounts. He continued that the Accounts included a number of new and existing requirements as set out in the report and drew members' attention to the draft 2008/09 Accounts (appendix 2) and the Audit Plan and Fee letter (appendices 3 and 4). He added that this was in compliance with the Audit Commission's requirement for a separate audit plan and fee in view of the scale and complexity of pension fund activity. The auditor would probably attend the Sub-Committee's meeting in September.

RESOLVED:

that the pension fund accounts for 2008/09 and the audit arrangements be noted.

8. **Review of Myners' Investment Principles**

Martin Spriggs (Head of Exchequer and Investment) introduced this report which set out the revised Investment Principles and the progress of the Brent Pension Fund in meeting them. Martin Spriggs advised that there were a number of areas that may require further attention. These included effective decision making, whether active or passive management was more appropriate for particular investments and the effectiveness of advisers and investment managers.

He continued that the revised principles, and compliance with them, would continue to be published as part of the Statement of Investment Principles. The decision to assist learning and development by occasional afternoon seminars, additional evening training sessions and the inclusion of training items on the agenda for future Sub-Committee meetings would be pursued. Martin added that although Brent currently used passive management in the in-house UK FTSE350 portfolio, and active management elsewhere, the problems experienced by both the current and previous global equity managers in underperforming global equity indexes may require re-examination of the active / passive issue if performance did not improve. He also added that the effectiveness of the advisers, the investment managers and the Sub-Committee would continue to be the subject of regular reports.

RESOLVED:

that the revised Myners Principles of Investment and the Brent Pension Fund's compliance with them be noted.

8. **Business & Training Plans for the Pension Fund Sub-Committee**

Members had before them a report from the Director of Finance and Corporate Resources that outlined the planned activities of the Pension Fund Sub Committee for the year to February 2010, and the three years to February 2012.

Martin Spriggs reviewed the business plans for the year 2008/09 which he said had been delivered with the exception of a review of the Statement of Investment Principles. He drew members' attention to the Business Plan for 2009/10 that covered both regular and other reports / work areas that were anticipated during the year. In giving a broad outline of the business plans for future years, Martin Spriggs stated that the period 2010/11 would consider new investment opportunities, the actuarial valuation and the review of the provision of additional voluntary contributions. In the period 2011/12, there would be reviews of both the actuary and asset allocation. He added that the plan would give a framework to ensure that long-term issues and other issues that may arise over the three year period were considered

RESOLVED:

that the business and training plans for the Brent Pension Fund be noted.

8. **Investment Management Fees**

The Sub-Committee received a report from the Director of Finance and Corporate Resources that detailed the investment management fees paid by Brent Pension Fund and examined possible options for change. The Head of Exchequer and Investment, Martin Spriggs clarified the two main fee structures used in paying investment managers appointed by the Fund: ad valorem and performance based. He outlined the main

advantages and disadvantages of each fee structure adding that a particular fee structure was unlikely to be the key to performance. He continued that an investment manager's performance was likely to be determined by factors including investment approach, team, market cycle and research.

In the discussion that followed, members expressed a view to in favour of a performance based fee structure.

RESOLVED:

that the report on investment fees be noted.

9. **Date of Next Meeting**

It was noted that a special meeting for the appointment of Infrastructure Manager would take place on Thursday 9 July 2009 at 9.30am. The next ordinary meeting of the Sub-Committee would take place on Thursday 24 September 2009 at 6.30pm.

10. **Any Other Urgent Business**

None.

The meeting ended at 8.55 pm.

GEORGE CRANE

Chair

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MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE

Thursday 9th July 2009 at 6.30 pm

PRESENT: Councillor Crane (Chair), Councillor H B Patel (Vice Chair) and Councillors Bacchus, Detre, and Hashmi. George Fraser (Co-opted member).

ALSO PRESENT: Representatives from BFinance (Consultants), Valentine Furniss (Independent Adviser), Mick Bowden (Deputy Director of Finance & Corporate Resources), Bina Chauhan-Wild (Finance) and Martin Spriggs (Head of Exchequer and Investment).

1. **Declarations of Interest**

None declared.

2. **Exclusion of Press and Public**

RESOLVED

that the press and public be now excluded from the meeting as the following matter involved consideration of a category of exempt information under Schedule 12A of the Local Government Act 1972, as set out below:-

“Information relating to the financial or business affairs of any particular person (including the Authority holding that information).” (Clause 15)

“Any terms proposed, or to be proposed, by or to the Authority in the course of negotiations for a contract or for the acquisition or disposal of property or supply of goods or services.” (Clause 16).

3. **Appointment of an Infrastructure manager**

Members received presentations and questioned four managers, as follows:-

Alinda

HSBC

Pantheon Private Equity

Partners Group

Following a discussion on the advantages and disadvantages of direct provision as against fund of funds provision, members agreed to appoint Alinda to the Infrastructure mandate.

4. **Date of Next Meeting**


It was noted that the next ordinary meeting of the Sub-Committee would take place on Thursday 24 September 2009 at 6.30pm.

The meeting ended at 3.30 pm.

GEORGE CRANE

Chair

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 <p>The logo of Brent Council, featuring a central coat of arms with a shield, a crown, and two lions, surrounded by the words 'BRENT COUNCIL' in a circular arrangement.</p>	<p>Pension Fund Sub Committee 24th September 2009</p> <p>Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
Report Title: PENSION FUND ACCOUNTS 2008/09	

1. SUMMARY

1.1 This report introduces the final Pension Fund accounts for 2008/09.

2. RECOMMENDATIONS

2.1 Members are asked to note the accounts. .

3. DETAIL

3.1 The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. Members will be aware that the Brent Pension Fund has produced a separate Annual Report and Accounts for many years.

3.2 The draft 2008/09 Pension Fund accounts were presented to members on 23rd June. The final accounts are attached as part of Appendix 2 (pages). The DCLG has stipulated that a number of existing documents should be included with the report, as well as a number of new requirements. It was hoped that a Final Report and Accounts could be presented to members at this meeting, but the late and very detailed requirements of the CIPFA Guidance, which remains in draft, has meant that some items will be added later, such as

- a) contributions for each employer, analysed by employer and employee.
- b) analysis of pensioners in receipt of enhanced retirement benefits (ill-health / early retirement enhancements).
- c) Age profile of members within five year bandings.

4. FINANCIAL IMPLICATIONS

These are set out within the report.

5. DIVERSITY IMPLICATIONS

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

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the plans.

8 BACKGROUND

Pension Fund Sub Committee – Pension Fund Accounts 2008/09 – June 23rd 2009-09

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

DUNCAN McLEOD
Director of Finance and
Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

**BRENT PENSION FUND
ANNUAL GOVERNANCE STATEMENT
2008/09**

Scope of responsibility

The Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council delegates responsibility for managing the Pension Fund to the Pension Fund Sub Committee, which reports to the General Purposes Committee of the Council.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is contained in the council's Constitution and can be found on our website at <http://www.brent.gov.uk/Democracy.nsf/>.

This statement explains how the Council, as administering authority for the Pension Fund, has complied with the code and also meets requirements in relation to the publication of a statement on internal control. It focuses on the issues of internal control, whereas the statement contained in the main accounts for the Council is more concerned with the wider issues of governance for the whole authority.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the pension fund is directed and controlled and accounts to stakeholders.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are set out over the following pages against the six core principles upon which the CIPFA/SOLACE Framework is based. The six core principles, adapted for the Pension Fund, being as follows:

1. Focusing on the purpose of the administering authority and on outcomes for stakeholders;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with stakeholders to ensure robust public accountability.

Each of these core principles are broken down into a number of supporting principles and these will be used by the administering authority on an annual basis to review the overall governance framework, as well as to identify specific actions needed to address any weaknesses and/or to achieve further improvement in the year ahead.

CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
1. Develop the administering authority's purpose and vision	<p>The Pension Fund Sub Committee has agreed the following policies to set out its aims and practices:</p> <p>a) The Statement of Investment Principles, which sets out how the fund is managed and administered.</p> <p>b) The Funding Strategy Statement, which sets out how the Fund will meet its liabilities.</p> <p>c) The Fund governance statement, which sets out the membership of the Pension Fund Sub Committee and how it works.</p> <p>d) The Communication Strategy, which sets out Pension Fund issues are communicated to members via the website and regular newsletters. Employers are contacted by letters.</p>	Ensure that communication is regular (M.Spriggs / A.Gray)
2. Review policies on a regular basis	The Statement of Investment Principles is reviewed on an annual basis. Other statements are reviewed on an occasional basis.	
3. Publish an annual report on a timely basis to communicate the fund's activities and achievements, its financial position and performance.	<p>A review of performance and summary of accounts is produced annually.</p> <p>A summary report and accounts is produced for members and published on the website.</p>	
4. Decide how the quality of service for users is to be measured and make sure that the information needed to	The Annual Report contains details about service standards and achievement of standards.	The service standards and achievement of standards should be published separately on the website to inform stakeholders

CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
review service quality effectively and regularly is available.		(A.Gray)
5. Put in place effective arrangements to identify and deal with failure in service delivery.	Potential service failure is identified through the monthly review of service with the Fund's administrator, the London Pension Fund Authority (LPFA). An action plan, with timescales, is agreed with the LPFA.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
1. Set out a clear statement of respective roles and responsibilities of members and officers.	<p>Article 2 of the Constitution describes the role of Members of the Council, the Executive, Mayor, Full Council and overview and Scrutiny.</p> <p>Up to date job descriptions are in place for Senior Officers.</p> <p>Monitoring Officer Advice Notes give advice to Members on decision making and standards of conduct.</p> <p>Local Democracy and Standards WebPages are updated regularly.</p>	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
	<p>All non-confidential reports and minutes are now on the Internet.</p> <p>The Statement of Investment Principles sets out the different roles of members, officers, managers, the Independent Adviser and the Actuary.</p>	
2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.	<p>Roles and responsibilities are covered in the Constitution. Draft job descriptions were not formally adopted by Members however these are now to be reviewed by Constitutional Working Group (CWG).</p> <p>Up to date job descriptions are in place for Senior Officers.</p>	
3. Determine a scheme of delegation and reserve powers within the Constitution.	<p>Clearly set out in the Constitution.</p> <p>The Legislation Tracker shows which CMT member is responsible for implementation of emerging legislation.</p> <p>The Borough Solicitor maintains a register of officer authorisations.</p> <p>The Constitution is renewed and reported to full Council every May.</p>	
4. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.	Covered in the Constitution and job descriptions.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
5. Make a senior officer (usually the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	<p>Covered in the Constitution and job description.</p> <p>Covered by statute and Financial Regulations.</p> <p>All reports have to be cleared by the Director of Finance & Corporate Resources. Director attends all Leader's briefings and meetings of the Executive and full Council.</p>	
6. Make a senior officer (other than the Responsible Financial Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with.	<p>Covered in the Constitution and job descriptions.</p> <p>Covered by statute and Financial Regulations.</p> <p>All reports have to be cleared by the Borough Solicitor who attends all Leader's briefings and meetings of the Executive and full Council. A lawyer also attends all other committee meetings and is responsible for issuing the legislation tracker, monitoring officer advice notes and legal bulletins.</p>	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	Review January to March 2009	Actions Needed to Address Weaknesses and responsible officer
<p>1. Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.</p>	<p>The Member Code of Conduct includes the 10 general principles of conduct, including respect for others, leadership and stewardship. The Constitution contains the Planning Code of Practice, Licensing Code of Practice, Code of Practice on Publicity and the protocol for Member Officer Relations. Members and Chief Officers work collaboratively on the Policy Coordination Group, Leader's Briefing, Service Planning and Budget Awaydays.</p>	<p>Ongoing training and support offered to Executive members. Regular meetings undertaken with senior officers. (Member Development Manager)</p>
<p>2. Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.</p>	<p>New Code of Conduct for Officers agreed 2005. Other codes, including the IT Usage Policy and Harassment Policy are all held on the intranet. Staff are made aware of their responsibilities through general communications, such as the Chief Executive Newsletter, Insight Magazine and via attachments to payslips, as well as at team briefings.</p> <p>The Improving Brent Programme sets out the requirement for having the highest standards of ethical behaviour across the organisation.</p> <p>New Anti-Fraud Framework, replacing the earlier 2003 framework, was publicised and issued in February 2008. Work is ongoing on raising staff and member awareness through training presentations.</p> <p>The Brent Member Code of Conduct reflects the model code published by the government, having been reviewed and amended in September 2007.</p>	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	Review January to March 2009	Actions Needed to Address Weaknesses and responsible officer
3. Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	<p>Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR.</p> <p>The Constitution contains various other codes including: Licensing, Planning, Member Officer Relations. Advice notes are issued by the Borough Solicitor regarding conduct.</p> <p>The registers of Members' interests and Members' gifts and hospitality are now placed on the web site enabling easy public access.</p>	
4. Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners.	<p>The Member Code of Conduct includes reference to Leadership and Stewardship and other values.</p> <p>A new Code of Conduct and competency framework has been developed for managers and staff together with a management charter which all set out the expected behaviours for officers, including Leadership and working with others.</p>	
5. Put in place arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	<p>Standards of conduct for Members are set out in the Constitution.</p> <p>Protocol for Member/officer relations is set out in Constitution.</p> <p>Standards Committee has remit to monitor compliance.</p>	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
1. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	<p>Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. In the case of the pension fund, all decisions are made by the Pension Fund Sub Committee. There are currently no decision making powers delegated to individual Members. In accordance with the Local government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process including call-in and question time. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.</p> <p>Decision making meetings of the Pension Fund Sub Committee are open to the public.</p> <p>Copies of reports and decisions are available on the intranet and through the One Stop Shop and Libraries.</p> <p>All meetings are clerked by well trained and experienced committee support officers and lawyers are present to provide advice on law and procedure.</p>	
2. Put in place arrangements to safeguard members and	Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	<p>The registers of Members' interests and gifts and hospitality are now placed on the web site enabling easy public access.</p> <p>The Monitoring Officer prepares an annual report to the Standards Committee.</p>	
3. Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for the discharge of the functions of such a committee.	<p>The Audit Committee was established in 2007 and has met quarterly. The terms of reference are set out in the Constitution.</p> <p>The provision of the internal audit function within the Council is through the Audit & Investigations Team, working in partnership with Deloitte & Touche Public Sector Internal Audit Ltd. The Audit Committee approve the annual Internal Audit Plan and receive progress reports at each quarterly meeting. The internal audit team have reviewed aspects of the pension fund. The team found that the authority could have substantial assurance that the systems of internal control were sound and being followed. The auditor raised some issues about the timely completion of monthly and quarterly reconciliations which are being addressed.</p> <p>External audit is provided by the Audit Commission. Their plans, interim reports and annual audit letter are all presented to the Audit Committee. The pension fund accounts are audited annually.</p>	
4. Put in place effective transparent and accessible arrangements for dealing with	The Council has a well regarded corporate complaints procedure that has been praised and endorsed by the Local Government Ombudsman (LGO), as set out in the annual LGO letter and our	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
complaints.	<p>annual report on complaints which is submitted to the Overview and Scrutiny Committee.</p> <p>Complaints are initially handled by service area managers and, if appealed, by trained complaints officers within departments. A central team is also in place with the Policy & Regeneration Unit to handle escalated complaints on behalf of the Chief Executive and to oversee the process as a whole.</p>	
5. Ensure that those making decisions whether for the authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.	<p>Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing guide and have to be cleared by both Finance and Legal.</p> <p>Members have attended both general and specific pension fund investment training skills sessions. A programme of training and development is in place to support Members and provide them with enough information and the skills to be able to make effective decisions.</p>	<p>In addition to mentoring support for Executive members a new programme will be publicised and promoted with specific training for chairing meetings planned.</p> <p>(Member Development Manager)</p>
6. Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access.	<p>New Whistleblowing Policy now in place. This has been publicised to staff and is on the intranet under 'Raising Concerns'. The new policy is more explicit regarding contractors/agents and the points of contact outside the authority.</p> <p>Whistleblowing allegations are dealt with, in the first instance, by the Audit & Investigations Team.</p>	
7. Actively recognise the limits of lawful activity placed on them by, for example the ultra	See above section 6. In addition regular Monitoring Officer Advice Notes are issued.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
vires doctrine but also strive to utilise powers to the full benefit of stakeholders.		

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	The Council runs a Member development programme which is reported to the Standards Committee annually. The Borough Solicitor provides training to new and existing Members on decision making and standards of conduct. Members are offered induction training on aspects of pension fund investment.	
2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation.	Officers have an annual appraisal containing developmental objectives linked to the Corporate Strategy and Departmental Service Plans. The Council's Corporate Learning and Development Plan and service offering are based on the needs identified in individual appraisals and Service Plans. Workforce Development Plans have now been completed for all Service Areas. Each role has a job description and role specification. All the statutory officers are members of the Corporate	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
	Management Team (CMT).	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
1. Make clear to themselves, all staff and stakeholders, to whom they are accountable and for what.	<p>Annual reports are sent to key stakeholders and put on the website. The annual report includes investment and service performance reports.</p> <p>Stakeholders have representation on the Pension Fund Sub Committee. A representative from the GMB Union is present to represent staff interests.</p>	
	<p>Regular letters are sent to employers, updating them on investment decisions and performance, and highlighting major changes in the pension scheme.</p> <p>Newsletters are regularly sent to staff.</p> <p>An annual meeting is held with staff to outline the performance of the Fund, and management changes, and changes to the Local Government Pension Scheme.</p>	
2. Hold meetings in public unless there are good reasons for confidentiality.	All meetings are held in public. Some parts of meetings are held in private when exempt or confidential information might be disclosed. This is subject to the agreement of the members	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	Position at March 2009	Actions Needed to Address Weaknesses and responsible officer
	present.	
3. Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	A review of the Council's adherence to the Freedom of Information (FOI) Act was reported to CMT in September 2005 and the Executive in October 2005. It showed that the Council is meeting its obligations under the act and that performance is generally high with regard to responding to requests within the statutory time limit.	To undertake a repeat review of adherence to the Freedom of Information Act and the effectiveness of the processes in place to co-ordinate FOI requests.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit & Investigation's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, is described below:

The Council

- Has monitored performance against the Corporate Strategy Objectives by taking an annual report and has set the annual budget in accordance with the Corporate Strategy priorities;
- Receives the annual budget report which summarises the financial position and the transactions for the year and considers the annual performance plan; and
- Has agreed the Constitution which sets out the decision making structure, delegated authority and financial regulations which underpin the internal control framework. This follows cross party review by the Constitutional Working Group.

The Pension Fund Sub Committee

- Makes key decisions in accordance with the asset allocation for the fund, investment opportunities and manager performance;
- Reviews performance on both an annual and a quarterly basis;
- Meets with managers on a regular basis
- Reviews progress against an annual and three year Work Plan agreed by the Sub Committee each year..

The Audit Committee

- Has met four times during 2008/09 and has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter;
- Maintains an overview of the Council's Constitution in respect of contract standing orders and financial regulations;
- Monitors the effective development and operation of risk management and corporate governance in the Council; and

- Reviews the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

The Standards Committee

- Receives reports from the council's Monitoring Officer on issues concerning member conduct and would consider reports referred from Ethical Standards Officers or the Monitoring Officer which require investigation and/or determination.

Audit & Investigations

- Provide assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Produce an Annual Audit Report including the Head of Audit annual opinion on the Council's internal controls; and
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Service Directors and copied to the relevant Service or Corporate Area Director. Recommendations for improvement are made in each report. Each significant audit report is followed up after a suitable period and any failure to implement recommendations is noted and reported back to the relevant director and the Audit Committee.

External Audit and Inspectorates

- The Director of Finance & Corporate Resources meets with the Council's external auditors on a monthly basis and, if appropriate, they raise any concerns they have regarding the internal control environment. These meetings become more frequent during the closing of the accounts process when any material weaknesses or issues are raised; and
- The outputs from various Inspectorates in relation to the Comprehensive Performance Assessment (CPA) provide some assurance as to the internal control environment. The latest assessment in February 2009, the last under the CPA regime, gave the Council a three star, "improving strongly" rating, its highest rating to date.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed:.....

Cllr George Crane

Chair of the Pension Fund Sub Committee

Gareth Daniel

Chief Executive



BRENT PENSION FUND

REPORT 2009





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Message from the chair

Brent Pension Fund Sub Committee

The market turmoil of 2007/08, with the sub-prime loan and banking crisis, has been succeeded by a continued credit and financial market crisis, banks collapsing and property prices falling. In short, 2008/09 has been an extraordinary year. The belief that central bank support and the raising of new capital would restore the banking sector to health was rudely shattered by the collapse of numerous banks and financial institutions either into bankruptcy or nationalisation – Lehman Brothers, Freddie Mac, Fannie Mae, AIG, Royal Bank of Scotland, HBOS and many others. Central banks have fought to support the financial sector and to restore credit facilities to businesses and individuals. Interest rates have been cut sharply in the UK from 5.5 per cent to 0.5 per cent and in the US to 0.25 per cent. Central banks and treasury departments in the UK and US have launched vast experiments with QE – quantitative easing – that seeks to increase the money supply so that banks and others are able to lend and invest in more risky assets. It is hoped that these initiatives will restore confidence and encourage economic recovery. Stock markets have fallen sharply – in the UK by 30 per cent – as profits begin to fall and some famous high street names like Woolworths, vanish. Apart from government bonds, that have benefited from a ‘flight to safety’, investment assets have fallen in value. The Brent Pension Fund has pursued a policy of diversification to reduce risk and improve returns. However, hedge funds, property, corporate and secured bonds have all joined equities in losing value. 2008/09 has been a truly dreadful year.

So, how has the Brent Pension Fund Sub Committee tackled the crisis? First, by resolving to continue with a long term approach that allows previous initiatives time to yield results. The asset allocation review determined that only minor changes should be made, as follows:

- a) To increase exposure to hedge fund of funds (where the manager invests in a number of funds run by other managers) from 5 per cent to 10 per cent of the fund, acknowledging that this asset class should yield steady results in future, avoiding the sharp falls that have been seen in equity markets. Although hedge fund returns were reduced by the market turmoil in September / October 2008, when Lehman (a major provider of market loans) collapsed, some hedge funds have shown themselves adept at avoiding market risks.
 - b) To invest 5 per cent of the fund in infrastructure, either through a manager or through a fund of funds. Research has indicated that infrastructure assets – roads, bridges, hospitals etc – can yield steady inflation linked returns over a long period. It is also apparent that different managers employ varying strategies, investing in different markets or designing, building and managing assets.
- The poor market background has resulted in the fund losing value during the year. The fund returned -26 per cent, against the benchmark of -21 per cent, and the average local authority fund -19.9 per cent. Managers underperformed in four main areas:
- a) Global equities, where the manager invested heavily in financial stocks that collapsed in value as bad debts and leverage drove various institutions into nationalisation or bankruptcy. The manager also over weighted exposure to companies that produce commodities – these suffered as prices fell.
 - b) Fixed interest. The portfolio is divided between ‘core’ – government and corporate bonds – and ‘satellite’ – absolute return investments that invest in emerging market debt, secured loans and fixed interest hedge funds. The satellite portfolio suffered as the market repriced risk and as some ‘forced sellers’, often hedge funds and banks, sold liquid secured loans. The yields on the secured loans rose to an average of 20 per cent per annum as the market assumed massive defaults.
 - c) Currency. The manager has taken views on the relative value of various currencies based on long term measures of fundamental value. Unfortunately, in a volatile market, currencies have not followed long term trends. Strong currencies have not been those with high interest rates, but commodity and safe haven currencies. It was decided in December 2008 to terminate the mandate.
 - d) Global Tactical Asset Allocation (GTAA). Ten years ago the Brent Pension Fund was managed by one manager who took asset allocations for all assets based on the relative value of each market. Since then, the Brent Fund has switched to invest in specialist managers who only look after specific markets or asset classes. Mellon was appointed in 2007 to manage a fund that sought to identify how



expensive / cheap equity, bond or currency markets were against each other, as well as how expensive / cheap individual country markets had become. The currency element underperformed in line with c) above, while the manager also over weighted equities against bonds

And the future? Although some market experts are calling the bottom of the market, it is uncertain whether or not falling profits, rising unemployment, falling house and property prices and concerns about banks will allow markets to recover in 2009. For example, it is expected that US GDP will fall by 3 per cent in 2009, while UK GDP will fall by 4 per cent. World growth is likely to be negative. However, as the decline moderates, and signs appear that housing and other markets will recover, equity markets should revive. This will probably occur in late 2009, but more likely in 2010.

Aside from investment, the administration of the fund has seen major changes in 2008/09. The benefits are now accumulated at a faster rate (sixtieths), but scheme members will be required to work to the age of sixty five. Many members will also be required to pay higher contribution rates.

Councillor George Crane
Chair, Brent Pension Fund Sub Committee



Brent Pension Fund responsibilities

The Brent Pension Fund

The Brent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is open to all local government employees, with the exception of police, fire fighters and teachers who have their own schemes.

Administering authority

The London Borough of Brent is the administering authority for the fund. It has responsibility for the collection of contributions, the payment of benefits and the investment of the fund under the Local Government Pension Scheme Regulations 1997 (as amended).

Brent Pension Fund investment sub-committee

As part of its responsibility as administering authority, Brent Council has established the Brent Pension Fund sub-committee to oversee as 'trustee' for the fund. The sub-committee meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments as they may affect the fund, and to review the performance of the fund managers.

Chair	Councillor Crane
Vice-Chair	Councillor H. Patel
Member	Councillor Bacchus
Member	Councillor Hashmi
Member	Councillor D. Brown
Member	Councillor Patel
Member	Councillor Detre

Co-opted members

(North West London College)	Mr. A. Patel
(GMBU)	Mr. G. Fraser

Independent Adviser	Mr V Furniss
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Brent Pension Fund Responsibilities – Investment Sub Committee (P4)

As set out in the scheme of governance, only councillors have voting rights because management of the fund is part of their legal responsibility. The Sub Committee takes executive decisions.

During 2008/09, members attended sub committee meetings and received training as follows:

Member	Meetings attended	Training attended
G. Crane	4	3
H. Patel	4	1
J. Bacchus	3	2
S. Hashmi	4	-
D. Brown	1	-
C. Patel	4	2
J. Detre	2	-
A. Patel	2	2
G. Fraser	2	1

Fund managers

The houses act as the council's agents and have authority to purchase and sell stocks as appropriate.

The following houses manage individual portfolios:

Fund Managers	Asset Class	£M	per cent
Henderson Global Investors (Mark Fulwood)	Fixed Interest	75.8	21.9
AllianceBernstein Ltd (George Blunden)	Global Equities	69.8	20.2
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	86.7	25.1
Blackrock Investment Management (Catriona Allen)	UK and European Property	29.1	8.4
Gartmore Investment Managers (Marek Siwicki)	UK Small Caps	9.4	2.7
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.5	0.8
Capital Dynamics (Angela Willets)	Private Equity	29.3	8.5
Fauchier Partners (Alex Dolbey)	Hedge Fund	36.8	10.6
Mellon Global Investors (Martin Campbell)	Global Tactical Asset Allocation	5.9	1.7
		345.3	100



Custodians

The fund uses two custodians for segregated portfolios as follows:

BNP Paribas Security Services (Fixed Interest)
– Mark Fulwood

Bank of New York Europe Limited (Global Equities, UK Equities & Property) – Colin Waters

Actuary (contact Christine Rice)

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

Performance measurement (Lynn Coventry)

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

Officers

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

Director of Finance & Corporate Resources

Duncan McLeod

Head of Exchequer & Investment

Martin Spriggs 020 8937 1472

Principal Investment Officer

Bina Chauhan-Wild 020 8937 1473

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

Head of Payroll and Pensions

Barry Hilder 020 8937 3180

Pensions contractors

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

Advice and benefit calculations

London Pensions Fund Authority 020 7369 6249

Payment of pensions

SERCO

The Registrar of Occupational Pension Schemes

PO Box INN, Newcastle-Upon-Tyne, NE99 INN

AVC provider

Clerical Medial© is the AVC scheme provider – contact Simon Wildgoose.

Legal Advisor

The London Borough of Brent Solicitor is Terry Osborne.

Banker

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

Auditor

The fund is audited by the Audit commission.

Actuarial valuation

Introduction

The scheme regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Brent Pension Fund (the fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2007 showed that the funding ratio of the fund had improved since the previous valuation with the market value of the fund's assets at that date (of £499 million) covering 72 per cent of the liabilities allowing, in the case of current contributors to the fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out below:
 - 14.8 per cent of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 7.7 per cent of pensionable pay to restore the assets to 100 per cent of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

These figures were based on the regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
 - Changes were made consistent with the Finance Act 2004.
 - A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.
4. The majority of employers participating in the fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the administering authority.
 5. The rates of contributions payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27 March 2008 which is appended to our report of the same date on the actuarial valuation.

Contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

6. For the majority of employers, the contribution rates were calculated using the projected unit actuarial method and taking account of the fund's funding strategy as described in the Funding Strategy Statement.

	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Brent	23.1	22.9	22.9	22.9

7. The main actuarial assumptions were as follows:

Discount rate for periods

Scheduled bodies

In service discount rate:	6.45 % a year
Left service discount rate:	6.45% a year

Admitted bodies

In service discount rate:	6.20% a year
Left service discount rate:	5.20% a year

Rate of general pay increases 4.7% a year

Rate of increases to pensions in payment 3.2% a year

Valuation of assets market value

8. This statement has been prepared by the actuary to the fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of the London Borough of Brent. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

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



List of scheduled and admitted bodies

Scheduled bodies

London Borough of Brent
Alperton Community School
ARK Academy
Avigdor Hirsch Torah Temimah School
Cardinal Hinsley High School
Claremont High School
College of North West London
Brent Housing Partnership
Convent of Jesus & Mary RC Language College
Capital City Academy
The Copland Community School & Technology Centre
JFS
John Kelly Boys Technology College
John Kelly Girls Technology College
Kilburn Park School
Kingsbury High School
Islamia Primary 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

Admitted bodies: contributing

Age Concern
Brent Association of Disabled People
Brent Society for Mentally Handicapped Children (Mencap)
Churchill contracts Ltd (Day centre)

Goldsborough Homecare and Nursing Services Ltd
Local Employment Access Project
National Autistic Society
Sudbury Neighbourhood Centre
Jarvis Workspace FM LTD
Wetton Cleaning Services and North Grounds Maintenance
Wetton Cleaning Services and South Grounds Maintenance

Admitted bodies : non-contributing

Brent Asian Professional Association
Brent Black Mental Health Project
Brent Community Relations Council
Brent Community Transport
Brent Energy Services Team
Brent Family Service Unit
Brent Irish Advisory Service
Brent Kids Scrap Bank
Brent Mind
Brent Under Twenties First Aid Housing
Brent Voluntary Service Council
Chalkhill Asian Forum
Crossroads for Carers
Harlesden Young Mums Project - Family Outreach Project
Harlesden Methodist Church – Harlesden Day nursery
Hillside Under Fives Centre
Kilburn Training
Park Lane Methodist Day Nursery
Pakistan Workers Association
Welcome Senior Citizens Club
West Indian Self Effort



Investment report for the year ended March 2009

Economic background

The period began with mounting evidence that growth momentum in the world economy was slowing as consumer spending, particularly in the UK and US, came under pressure from tighter credit conditions. These concerns were aggravated during May and June, as markets succumbed to fears of rising inflation pressures. Investors believed that the high oil price would hit economic growth while simultaneously boosting inflation and forcing central banks to raise interest rates.

Despite the oil price falling from its mid-year peak, inflation fears persisted and markets were depressed by a combination of economic and financial worries as poor economic data releases highlighted the risk that the global economy was heading into recession. Additionally, the growing crisis in the global financial system, including the failure of major US investment bank Lehman Brothers in September, damaged confidence and caused investors to sell risky assets and seek out the relative safety of cash and government bonds.

Waves of pessimism swept through the markets in October 2008, as two negative forces took hold: the fear of a global financial meltdown following the collapse of Lehman Brothers; and a deteriorating economic outlook. More financial institutions had to be rescued and G7 policymakers were quick to respond with a combination of new capital, banking system guarantees and coordinated interest rate cuts. The severity of the situation caused market regulators in a number of regions to ban the short selling of financial stocks and the US government established a \$700bn fund (TARP) to buy troubled assets from banks to inject confidence back into money markets. Reductions in interest rates continued, with rates ending the period at record lows in all major economies: 0.5 per cent in the UK; in the range 0-0.25 per cent in the US; 1.5 per cent in the Eurozone; and 0.1 per cent in Japan.

In November, an injection of capital into Citigroup by the US Treasury and news that the then New York Federal Reserve President Tim Geithner was to be

Treasury Secretary in the Obama administration, briefly drove markets higher in December with international returns boosted by the decline in the value of sterling. However, the rally was quickly stifled early in 2009 as investors were torn between news of enhanced government bail outs and a deteriorating financial and economic backdrop. Volatility remained at elevated levels as financials led the market down.

The markets continued to fall during February as global equities reached new cyclical lows despite a \$787bn fiscal stimulus package in the US. A sharp deterioration in global growth during Q4 2008 and a continuing lack of coherent government policy aimed at repairing the banking system were seen as the main catalysts for the sell-off. Poor prospects for corporate profitability also contributed. However, towards the end of the period, markets rose sharply higher reflecting expectations of an improvement in economic conditions globally, the announcement of various quantitative easing initiatives by governments in the UK, US and Japan, and a series of positive statements on profitability from major US banks.

Bond markets

While global equity markets suffered one of their worst 12-month periods on record the bond market performed relatively well supported by investors seeking a safe haven and against a backdrop of expected and then actual interest rate cuts. All stocks gilts returned 10.3 per cent, but index-linked gilts lost 1.3 per cent as inflation fell over the year. For sterling-based investors global bonds significantly outperformed the UK gilt market on an unhedged basis as the weakness of sterling added to returns from overseas bond markets. UK ten-year gilt yields fell from 4.3 per cent to 3.2 per cent over the period.

Corporate bonds did less well as trading liquidity in this segment deteriorated and as investors became concerned regarding financial sector stability and a possible rise in corporate defaults. The highest quality stocks gave positive returns (iBoxx Sterling Non-Gilts index AAA +6.5 per cent) as did bonds with only a short period to maturity (iBoxx Sterling Non-Gilts index 1-3 years



Investment Report for the year ended March 2009 continued

+3.1 per cent), but lower rated issues and those with long periods still to run until maturity (iBoxx Sterling Non-Gilts index 15 + years: -4.2 per cent) lost value. Industrial sector bonds outperformed financial sector bonds, as some of the largest banks and insurance companies required government aid. In particular the more subordinated financial securities performed very poorly, exhibiting significant price falls due to concerns about issuer stability, possible coupon deferral and failure to exercise call options. However levels of issuance of investment grade corporate bonds increased to record levels, offering investors the opportunity to purchase industrial sector bonds at historically cheap prices relative to government bonds.

Yields rose gradually during the early part of the period, peaking in June before falling sharply as the global economy deteriorated and central banks cut interest rates. The G7 countries entered recession as leading indicators of economic growth deteriorated sharply. Government bonds rallied sharply in November and a number of government bond yields hit record lows on expectations of new lows for central bank rates and the adoption of broad-based quantitative easing (the purchase of government bonds and private sector financial assets). US 30-year treasury yields had their largest one-day fall in history (42 basis points) on news that the US treasury was buying US mortgage bonds.

2009 has seen a temporary reversal of fortune as government bonds sold off sharply. There was no particular catalyst for the sell-off but rather a combination of factors including: the Fed's failure to provide a timetable for treasury purchases; investor concerns over the UK government's seemingly erratic approach to the banking crisis; and general concerns over the amount of government bond issuance needed to finance bank bailouts and fiscal stimulus plans. The underperformance was prolonged in US treasuries as investors were concerned by the Fed's apparent reluctance to engage fully in quantitative easing.

However, as the macroeconomic backdrop has worsened, yields have fallen once more and at the end of the period, the downward pressure on yields was increased by the initiation of quantitative easing, the printing of money, in order to buy government bonds. Conversely, corporate bonds underperformed, particularly those issued by financial and property companies due to concerns about default levels.

Other markets

With the exception of government bonds and cash, most other markets fell sharply as worries about recession and the credit crunch reduced confidence, as follows:-

- a) Although overseas equities gained some protection from the collapse in the value of sterling, equities as a whole fell in value. UK equities fell by around 30 per cent, while USA equities fell by 15 per cent and European equities by 31 per cent. Dividend cuts have now become frequent as companies try to protect their cash flow.
- b) Property had become overvalued in the loose credit conditions since 2000, so that property yields (rents) had fallen to 4 per cent / 5 per cent. Capital values have fallen by around 40 per cent, so that yields have risen sharply. However, rental incomes are falling as banks, shops and other companies reduce space or collapse.
- c) Hedge funds also suffered in the severe market volatility – funds could not hedge (insure against) possible losses, and suffered as equity markets fell or shorting rules were imposed. September and October 2008 were particularly severe as some funds were forced to seek new credit facilities following the collapse of Lehmans.
- d) Private equity values have fallen as exit routes into public markets closed and prices fell.

Strategy and outlook

The extraordinary fiscal and monetary policy actions taken by governments and central banks around the world appear sufficient to prevent a slide into a 1930s style depression. These actions have succeeded in stabilising financial markets so far, although risks remain large.

Economic growth is likely to remain weak for a protracted length of time and we expect official interest rates to stay close to zero over this period. A broader recovery in risk assets and enormous government bond supply are likely to weigh on the market in due course, but in the near term the weak economic environment and quantitative easing are likely to dominate sentiment for now. We therefore remain positioned for yields to fall but recognise that the largest declines in yields are likely to be behind us.

Pension Fund – general information

Fund Income

The fund receives income from the following sources:

- employees, at varying rates dependant on status or date of joining the scheme
- employers, at varying rates according to their status
- investment income – dividends or interest
- capital gains on investments and
- transfer values from other funds.

Table B: Fund membership and contributions 2005 to 2009

	2005	2006	2007	2008	2009
Number of contributing employees as at 1 April	5,168	5,644	5,849	5,922	6,075
Deferred	4,292	4,679	5,159	5,380	5,713
Pensioners and dependants	4,819	4,881	5,024	5,161	5,269
	£M	£M	£M	£M	£M
Employee contributions	6.1	6.7	7.1	7.4	8.5
Employer contributions	19.3	21.5	25.6	28.4	28.1
Total contributions	25.4	28.2	32.7	35.8	36.6

Table C: The total administrative cost of the fund

	2008		2009	
	£'000	per cent	£'000	per cent
Expenditure				
Administration and processing	988	39.7	1,025	46.3
Actuarial fees	59	2.4	45	2.0
Fund management and custody fees	1,424	57.2	1,125	50.9
Performance measurement fees	18	0.7	18	0.8
Total administration costs	2,489	100	2,213	100

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

YEARS	2005	2006	2007	2008	2009
	£'000	£'000	£'000	£'000	£'000
VALUE	376,653	456,747	498,500	472,039	345,453



Risk management

Commentary on the management of investment risk is contained within the Statement of Investment Principles. The main investment risks are those of not meeting liabilities and severe market decline. These are mitigated by regular review of performance and asset allocation, diversification between managers and asset classes, and taking advice from consultants, the investment adviser and managers.

However, there are other, operational risks that require management. In particular, the systems used by and financial health of, managers, custodians and contractors are assessed at appointment and on an ongoing basis by reference to annual reports, assurance reports (such as AAF 01/06 and SAS 70) and other research. If concerns arise, these are investigated and reported to members so that issues are resolved.

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

Financial performance

The Brent Pension Fund does not construct a budget because most of the expenditure and income items cannot be controlled in this way. However, a budget is agreed for certain pensioner payroll, IT and committee support items at the beginning of each year. These budgets are adhered to strictly unless the Fund agrees to extra work items.

A ten year cash flow forecast is updated whenever the asset allocation for the Fund is reviewed (on a three year basis). Following increases in employer contributions, it is anticipated that the Fund will have a positive cash flow (excluding dividend and interest receipts) in future years to reduce the Fund deficit. However, in 2008/09 the positive cash flow was reduced following changes in government actuary rules governing the calculation of transfer values for staff leaving / joining the Fund. The rules have now been clarified, so that there should be a larger surplus in 2009 / 10.

Investments

Administration of the fund

The fund managers invest in markets, in accordance with their management agreements and investment regulations and the Statement of Investment Principles.

The WM Company, market leader in performance measurement and investment administration services, has measured the performance of the fund over the year in accordance with the performance benchmarks set for the investment managers. This has been based on the asset allocation agreed for the Brent fund following an asset liability study.

Sales and purchases

Sales proceeds totalled £167.7 million (£185.3m 2007/08) and the purchases totalled £162.2 million (£208.0 million 2007/08) during 2008/09.

Administration

Pension administration is carried out by the London Pension Fund Authority (LPFA) which currently has 5 staff employed on the Brent contract.



LPFA Report

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

On time processing in all categories of work exceeded 98%, with an overall percentage of 99.37%. We were disappointed that a small number of cases were completed late, but at the same time we were also very pleased to see an excellent level of service reflected by over half of the cases processed on time actually being completed in advance of their contractual timescales.

Annual Benefits Statements were sent to 2772 active members and 4666 deferred beneficiaries.

Customer satisfaction continues to be very good. We received 7 complaints for the year, all of which were responded to and resolved promptly. Quality of service questionnaires were sent to all retirees and randomly selected members based on cases actioned on their behalf. A review of these responses has shown feedback to be positive, with satisfaction being generally high.

There has been a lot of focus and attention on the new LGPS for 2008 and various LPFA departments have worked hard to ensure that staff, employers and agency clients have been kept up to date with all the new changes. This included a successful training day for employers.

As part of LPFA's efforts to improve communications and as a means of updating Brent on Regulations and other matters at LPFA, we have introduced new regular Pension and Agency Update newsletters.

Looking to the future we are keen to identify areas where we can continue to work together with a view to improving and building upon what we believe to be an effective and high quality level of service for you and your members.

Mike Allen
Assistant Director Member Services

Table E: Asset allocation changes over the year

	31st March 2008		31st March 2009	
	£'000	per cent	£'000	per cent
UK equities	117,197	24.9	80,488	23.3
UK equities small companies	15,910	3.3	9,477	2.7
Private equity	18,570	3.9	31,800	9.2
Overseas equities				
US	55,900	11.8	30,765	8.9
Europe	30,423	6.46	14,600	4.2
Japan	9,300	1.98	4,100	1.2
South East Asia	6,700	1.42	4,300	1.2
Other	10,200	2.17	5,700	1.6
Fixed interest securities				
Gilts	31,659	6.7	16,000	4.7
Corporate bonds	10,600	2.3	23,885	6.9
Credit	0	0	4,500	1.3
Other	44,200	9.4	31,100	9.0
Property uk fund of funds	28,437	6.0	18,998	5.5
Property european fund of funds	9,343	2.0	10,133	2.9
Hedge funds	29,056	6.2	36,878	10.7
Currency fund	32,226	6.9	-	-
Global tactical asset allocation	15,807	3.4	5,951	1.7
UK cash deposits	5,181	1.1	16,720	4.9
Derivatives	33	0.0	(115)	0.0
Forward FX	(1)	0.0	(34)	0.0
Total assets	470,741	100	345,246	100

Asset Allocation and performance

The Brent fund is fairly mature – in 2007, 58 per cent of its assets were ‘owned’ by pensioners and former staff who deferred their benefits. However, the liabilities are long-term in nature, enabling the sub committee to take a long-term view of investments to implement a specific benchmark for the fund to allow improved returns but wide diversification to reduce risk. The Brent Fund is very different from the average local authority fund, particularly in the area of ‘alternative investments’ (private equity, hedge funds, secured loans, and global tactical asset allocation). Taking a long-term view has also been assisted by there being a positive cash flow of contributions and dividends into the fund. The asset allocation is as follows:

The main changes made during the year, which will not affect the benchmark until 1st April 2009, were to increase exposure to private equity and hedge funds, and to terminate the currency mandate following poor results.

Markets were negative in 2008/09 with the exception of private equity, government bonds / gilts and cash. The WM Local Authority universe indicates that the best performing asset class were bonds, which enjoyed a safe haven status in the market turmoil. Asset allocation has helped performance though allocations to currency, while GTAA and secured loans have lost value in 2007/08. Stock selection has been poor in overseas equities, though Gartmore has outperformed in small UK companies.

Table F: The funds largest UK Equity holdings

31st March 2009		
Company	Market Value £'000	% of UK Equities
Royal Dutch Shell	6,581	6.3
BP Amoco	6,051	5.8
Vodafone	4,364	4.2
Glaxosmithkline	3,858	3.7
HSBC	3,351	3.2
Astrazeneca	2,434	2.4
BG Group	2,382	2.3
British American Tobacco	2,085	2.0
BHP Billiton	2,000	1.9
Tesco	1,778	1.7

Table G: Asset class

	Asset allocation		
	Brent 31/03/08 %	Brent 31/03/09 %	Ave. local Authority 31/03/09 %
UK gilts	4.5	4.5	9.9
Corporate bonds	4.5	4.5	(incl. above)
Index linked gilts	–	–	5.5
Overseas bonds	–	–	2.9
Secured loans	6.0	6.0	–
Fixed interest hedge fund	3.0	3.0	–
UK FTSE 350 equities	23.0	23.0	34.1
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities	25.5	25.0	30.2
Property	8.0	8.0	7.3
Hedge fund of funds	5.0	5.0	1.3
Private equity	4.0	4.0	1.9
Currency	7.0	7.0	0.9
Global tactical asset allocation	5.0	5.0	above
Cash	1.0	1.0	4.3

Investments continued

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

Table H: Investment Returns 2008/09

	per cent
Total Return	-26.0
Average Local Authority Return	-19.9
Fund Benchmark Return	-21.0
Inflation (Retail Price Index)	-0.4
Average Earnings	2.9

Table I illustrates the individual areas of out-performance or underperformance. The highlights are:

- The UK Small Companies manager outperformed as AIM companies outperformed FTSE companies. Private equity enjoyed a good first half-year as credit remained cheap, but falling public equity markets indicate difficult times ahead.

- The overseas equity manager underperformed as a result of overweighting financial companies and materials that lost value in the sub prime loans and credit crisis and ensuing recession.
- The fixed interest manager suffered as the credit crunch saw the value of secured loans marked down as buyers vanished.
- The currency manager underperformed as the market rewarded currencies that were linked to commodity producers, fundamentally undervalued currencies continued to fall, and as economic volatility was high.
- The global tactical asset allocation manager underperformed for the currency reasons above, but also took the view that currency markets would outperform bonds, and that the Japanese market looked good value.

Table I: Investment returns in individual markets

Asset Class	Returns		Asset Allocation as at 31.03.09	
	Brent Fund %	Benchmark %	Brent Fund Actual %	Average Authority %
UK equities-FTSE	-29.0	-29.0	23.3	31.5
UK equities-small	-41.4	-44.6	2.7	Incl. above
overseas equities	-43.2	-33.1	17.2	31.3
fixed interest & index linked	10.9	10.3	4.6	17.2
corporate bonds	-0.4	-6.0	6.8	Incl. Above
overseas bonds	-	-	1.1	2.8
other fixed interest	-22.6	8.1	9.1	-
property	-20.7	-25.5	8.4	6.5
hedge funds	-11.1	9.5	10.6	1.8
private equity	18.0	3.6	9.2	3.3
currency			-	0.9
GTAA	-62.4	-28.2	1.7	incl. above
cash	5.7	2.0	5.3	4.3
Total	-26.0	-21.0	100	100

Table J Individual managers performance over one and three years

Asset class	Brent 1 year %	benchmark %	Brent 3 years %	benchmark %	Brent 5 years %	benchmark %
UK equities	-29.0	-29.0	-10.0	-9.9	1.8	1.6
Small companies	-41.0	-44.6	-18.5	-23.2	-6.0	-9.0
Global equities	-43.2	-33.1				
Fixed interest	-8.5	4.9	-2.4	4.0	1.3	5.1
Property	-20.7	-25.5	-3.4	-8.4	4.9	1.9
Hedge funds	-9.6	8.5				
Global tactical asset allocation	-62.4	-28.2				

Table K illustrates the long-term performance of the Brent fund and the value represented when compared to average earnings – note that a comparison with retail prices would look even better. The fund has underperformed the average fund over five and ten year periods, mainly as a result of poor equity returns. However, it is a matter of concern that liabilities, linked to pay and retail price inflation, are rising at a faster rate than the value of the fund.

Table K: Long term performance of the fund

Year	Brent fund %	Average local authority fund %	Average earnings %
2008/09	-26.0	-19.9	2.9
2007/08	7.4	7.0	4.1
2006/07	19.9	24.9	4.4
3 years to 31.3.09	-9.6	-5.9	2.9
5 years to 31.3.09	-0.7	3.1	3.5
10 years to 31.3.09	0.4	2.0	3.7

Topical Information

Statement of Investment Principles

In response to new regulations, the Pension Fund Sub Committee published a Statement of Investment Principles (SIP) in 2000. The SIP details important policy issues, including investment responsibilities and objectives, the management of risks to the value of the fund and asset allocation policy. Aspects of the investment management arrangements are outlined, including the current strategy and the requirement for periodic review, monitoring activity and performance, and investment restrictions. A new SIP (attached) has updated procedures in the light of the Myners report, new investment regulations and other developments. It shows where the policies adopted by the Brent fund differ from those set out in Myners and the reasons for those differences.

Corporate Governance Policy

The UK equity fund has holdings in all the major companies in the FTSE 350. Being an Index Tracking fund, these holdings will be maintained over the long-term unless there are major changes in the status of individual companies. It is therefore important that the

fund uses its vote at Annual General Meetings and Extraordinary General Meetings to ensure that the proper procedures are in place to protect the interests of shareholders. The Pension Fund Sub Committee has agreed policies that will guide the use of votes, and also uses the RREV voting service to inform officers on salient issues. The fund has delegated voting on overseas issues to the fund manager, Bank of Ireland Asset Management.

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

New developments

The Pension Sub Committee has terminated the currency mandate managed by Mellon Global Investors, and increased the private equity and hedge fund portfolios (managed by Capital Dynamics and Fauchier Partners).

Table L: Service standards over the period 1 April 2008 to 31 March 2009

	Completed in period	Performance	Expected time scales	London Median
Admissions	1079	98.89	10 days	10 days
Transfers in	90	99.18	5 days	10 days
Transfer out	81	99.18	10 days	15 days
Estimates (employees)	315	99.62	5 days	10 days
Estimates (employers)	141	99.62	5 days	10 days
Retirements	269	100	10 days	5 days
Deferred benefits	687	99.87	10days	15 days
Refunds	56	99.87	10 days	10 days
Deaths	200*	100	5 days	5 days
Correspondence	698	99.37	5 days	N/A

* includes 7 deaths in service

Service standards over the period 1 April 2008 to 31 March 2009

(Table L above)

The contract stipulates that the expected timescales should be reached in 89 per cent of cases.

Total caseload for the period was 6773, of which 3456 cases were complete ahead of due date. There were also 7 complaints in the year.

Retirements in 2008/09

(figures for 2007/08 in brackets)

There were a total of 216 (228) retirements in 2008/09 – 24 (35) redundancies, 20 (11) ill health retirements and 172 (181) normal retirements.

Late Employer Contributions

Almost all employer contributions have been received on time. Only one employer has been required to pay interest on late contributions in 2008/09. The interest amounted to less than £1,000.

Service Level Agreements with employers

There were no service level agreements in place with employers in 2008/09.

Brent Council Pension Fund website

The website is now operated by the LPFA, and gives access to various policies (such as the Statement of Investment Principles, Funding Strategy Statement etc) and access to various self service modules. These include an individual's service record, and self help calculations for benefits.

Internal Disputes Resolution Procedure (IDRP)

The Pensions Act 1995 requires that a pension scheme has in place a two tier procedure for resolving disputes about pension rights. The scheme sets out who should hear disputes and the timescales within which they must be resolved. If the applicant is dissatisfied with the outcome of the IDRP, they may take their grievance to the Pensions Ombudsman. There were four IDRP claims in the year.

The IDRP is set out on the Brent website. Contact Andrew Gray – 020 8937 3157

Funding strategy statement (FSS – attached)

The FSS was introduced in 2004:-

- to improve local transparency, accountability and understanding of the long-term management of employers' pension liabilities
- to link this process with the Statement of Investment Principles and Fund Valuation requirements.



Socially responsible investment

The fund will continue to hold all major stocks within the FTSE 350 but will seek to use its position as a shareholder to influence policies. To enable the fund to work with others to engage with companies, the fund has joined the Local Authority Pension Fund Forum. Overseas, AllianceBernstein has discretion to invest in the best economic interests of the fund, which will include avoiding companies where ethical or environmental concerns are not fully recognised in the rating of the stock.

Governance of the Brent Fund

In 2006, the Sub Committee published (see attached) its policies and practices on the governance of the fund, setting out such items as the composition of the Sub Committee and the regularity of meetings.

Added years and additional years voluntary contributions (AVCs)

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

Conflicts of interest

Conflicts of interest are managed as follows:-

- a) Prior to taking up their membership of the Pension Fund Sub Committee, members are given training on their duties. It is emphasised that members are required to act in the interests of the pension fund members and should put aside personal interests and considerations.
- b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Sub Committee meeting.
- c) A number of different interests and advisers are available to the Sub Committee. First, the actuary must advise on the solvency of the Fund and employer contribution rates. Second, officers and the Independent Adviser are available to give independent advice. Third, both employee groups and the largest employers are represented on the Sub Committee. Finally, meetings are open to the public and minutes and reports are published.

Compliance with best investment practice (the Myners' Report)

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



London Borough of Brent Pension Fund accounts as at 31st March 2009

	note	2007/2008 £ 000s	2008/2009 £ 000s
Contributions and benefits			
Contributions receivable	3	35,888	36,629
Transfer values in	4	2,964	1,389
		38,852	38,018
Benefits payable	5	22,531	24,227
Payments to and account leavers	6	3,129	3,693
Administrative expenses	7	1,051	1,070
		26,711	28,990
Net additions (withdrawals) from dealings with members		12,141	9,028
Returns on investment			
Investment income	8	13,986	13,434
Change in market value of investments	9	(51,150)	(147,905)
Investment management expenses	10	(1,438)	(1,143)
Return on investments		(38,602)	(135,614)
Net increase / (decrease) in the funds during the year		(26,461)	(126,586)
Net assets of the scheme			
Opening net assets		498,500	472,039
Closing net assets		472,039	345,453
Net assets statement 31st March			
Investments	9	472,584	346,082
Current assets	11	602	852
Current liabilities	12	(1,147)	(1,481)
Net assets of the scheme at 31st March		472,039	345,453



London Borough of Brent Pension Fund

Accounting policies and notes to the accounts March 2009

1. Basis of preparation

The financial statements summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the actuary on page 6 of the annual report of the Pension Fund and these financial statements should be read in conjunction with it.

2. Accounting policies

The consolidated accounts of the Pension Fund for the year to 31st March 2009 are presented in accordance with the following accounting policies:

A Statements of accounting policies

- (i) The pension costs that are charged to the Council's accounts in respect of its employees are equal to the contributions paid to the pension fund for those employees.
- (ii) Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. These costs have been determined on the basis of contribution rates that are set to meet 100 per cent of the liabilities of the Pension Fund, in accordance with relevant Government Regulations.

B Basis of accounting

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of the Pension Schemes: A Statement of Recommended Practice (revised November 2002). The Local Government SORP is the Code of Practice on Local Authority Accounting in the United Kingdom: The Statement of Recommended Practice 2008.

C Asset valuation principles

- (i) UK quoted securities are valued at bid prices as at the close of business on the 31 March or at the date of the last pricing of the security.
- (ii) Overseas quoted securities are valued at bid price on the 31st March, translated into sterling in accordance with accounting policy.
- (iii) UK unquoted unit trusts and other unquoted securities including hedge funds valued at the external manager's valuation.
- (iv) Fixed interest securities valued at market value excluding the value of interest accruing on the securities.

D Income from investments

Dividends on investments are credited to the Fund accounts on the ex-dividend date. Interest on fixed-interest securities is accrued on a day to day basis. Income is shown gross of taxes deducted at source in the accounts.

E Foreign currencies

Transactions in foreign currencies are accounted for in Sterling at the rate ruling on the date of the transactions. Monetary and other assets denominated in foreign currencies are translated into sterling at exchange rates ruling on 31st March. Translation and conversion differences arising on transactions are included in the Fund Account.

F Transfer values to and from the fund

The Fund Account has been prepared on cash basis. Transfer values paid to or paid out from the Fund during the year have been included.



London Borough of Brent Pension Fund

Accounting policies and notes to the accounts March 2009

continued

3. Notes to the accounts

A Ex-gratia payments

No ex-gratia payments were met from the Fund in 2008/2009.

B Taxation

(i) Investments

The Fund is exempt from United Kingdom Capital Gains Tax. Income from overseas sources suffers a withholding tax in the country of origin, unless exemption is permitted as in the United States and Australia. A proportion of the tax deducted in some European Countries is recovered. The amounts recovered will vary from the amounts paid due to exchange rate fluctuations. All VAT paid is recoverable. Irrecoverable Overseas Withholding Tax and UK Income Tax have been written off to the Fund account in 2008/2009.

ii) Compounded pensions

There is a liability to income tax on these items, which are small pensions converted into lump sums. The rate of tax is 20 per cent and the liability is minimal.

C Employers' contributions

In 2008/2009 employers' contributions of £28.1 million were paid (2007/08 £28.4 m).

The increased contributions will allow elimination of the funding deficit over a 25 year period.

D Statement of investment principles

The Pension Fund Sub-committee agreed a revised Statement of Investment Principle in 2008 and published this both to the employers and on the Finance website. (www.brent.gov.uk/pensions)

E Related party's transactions

As administering authority for the Brent Pension Fund, the London Borough of Brent is a related party to the Fund. The authority provides administrative support, elected member leadership to the Fund, and manages the UK equity portfolio in house. Other related parties would include other pension fund employers (page 8), pension fund managers and advisor's (page 4), and senior officers and their families (page 4).

F The administrative authority's responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of their officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Resources.
- to manage business to secure economic, efficient and effective use of resources and safeguard assets.

G Responsibilities of the Director of Finance and Corporate Resources

The Director is responsible for the preparation of the Authority's Pension Fund's Statement of Accounts, in terms of the Code and the Statement of Recommended Practice. The Director is required to present fairly the financial position of the Pension Fund (and its income and expenditure) for the year ended 31st March 2009. In preparing this statement of accounts, the Director has: selected suitable accounting policies and applied them consistently; made judgements and estimates that were reasonable and prudent; complied with the Code; kept proper up to date accounting records; and taken reasonable steps for the prevention of fraud and other irregularities.

Duncan McLeod
Director of Finance and Corporate Resources



3 Contributions receivable

Employees contributed £8.5 million in 2008/2009. The numbers of contributing members increased during the year.

	2007/2008	2007/2008	2008/2009	2008/2009	2007/2008	2008/2009
	£000s	£000s	£000s	£000s	£000s	£000s
	ongoing	deficit	ongoing	deficit		
Employers						
Brent	14,313	10,735	16,129	8,828	25,047	24,957
Scheduled	1,546	750	1,763	322	2,297	2,085
Admitted	814	285	730	330	1,103	1,061
Members						
Brent					6,246	7,178
Scheduled					705	810
Admitted					294	313
Additional voluntary contributions					196	225
					35,888	36,629
4 Transfers in						
Individual Transfers in from other schemes					2,964	1,389
5 Benefits payable						
On retirement or death						
Pensions						
Brent					17,981	19,129
Scheduled					569	645
Admitted					586	690
Lump sum retirement benefits						
Brent					2,473	2,812
Scheduled					501	222
Admitted					179	306
Lump sum death benefits						
Brent					199	423
Scheduled					43	0
Admitted					0	0
					22,531	24,227
6 Payments to and on account of leavers						
Refund to members leaving service					19	16
Individual transfers to other schemes					3,110	3,677
					3,129	3,693
7 Administration expenses						
Administration and processing					951	982
Actuarial fees					58	45
Audit fees					42	43
					1,051	1,070
8 Investment Income						
Dividend income equities					8,874	7,640
Income from fixed interest securities					3,354	4,011
Income from property unit trusts securities					1,535	1,345
Income from private equity					506	287
Interest on cash deposits					439	795
Commission recapture					0	42
Class action					0	31
					14,708	14,151
Irrecoverable tax					(722)	(717)
Total investment income					13,986	13,434



9 Investments

	Value at 31.03.08 £'000s	Purchases At cost £'000s	Sales Proceeds £'000s	Change in Market Value £'000s	Value at 31.03.09 £'000s
UK equities–quoted	106,744	5,882	4,489	(34,829)	73,308
Global equities–qtd UK ALBERN	10,453	6,995	5,404	(4,864)	7,180
Global equities–quoted ALBERN	112,725	69,363	86,289	(36,132)	59,465
Fixed interest securities	86,459	37,662	36,895	(11,741)	75,485
Property UK FOF Unit Ts	28,437	0	0	(9,439)	18,998
Property european FOF Unit Ts	9,343	0	0	790	10,133
UK equities small companies	15,910	73	0	(6,506)	9,477
Private equity–YFM/CapDyn	18,570	8,934	0	4,296	31,800
Hedge fund	29,056	11,000	0	3,178	36,878
Currency fund	32,226	22,700	34,714	(20,212)	0
Global tactical asset allocation	15,807	0	0	(9,856)	5,951
	465,528	162,609	167,791	(131,671)	328,675
Cash deposits	4,906	11,613	0	201	16,720
Henderson Bond Future	0	52	335	283	0
Henderson FX	(1)	3,377	3,376	(34)	(34)
AllianceBernstein FX	300	644,858	628,969	(16,309)	(120)
AllianceBernstein Futures	7	411	38	(375)	5
	470,740	822,920	800,509	(147,905)	345,246
Investment income due	1,844				836
	472,584				346,082

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

	2007/2008 £000s	2008/2009 £000s
Fixed interest securities		
UK public sector	31,314	15,831
UK corporate – quoted	10,545	23,591
Overseas government quoted	4,105	3,928
Secured loans	24,957	15,558
Absolute return fund	12,859	14,659
Infrastructure	2,232	1,370
Money market fund	447	548
	86,459	75,485

The following are pooled investment vehicles (excluding fixed interest).

	2007/2008 £000s	2008/2009 £000s
Property – UK fund of funds unit trust	28,437	18,998
Property – European fund of funds unit trust	9,343	10,133
UK Equities – small companies	15,910	9,477
Private equity	18,570	31,800
Hedge fund	29,056	36,878
Currency fund	32,226	0
Global Tactical asset allocation	15,807	6,000
	149,349	113,286



	2007/08	2008/09
	£000	£000
Derivative Contracts		
Currency – Henderson	(1)	(34)
Futures – bonds	–	–
Futures – equities	7	5
Currency AllianceBernstein	300	(120)

Type of derivative	Expiration	Economic	Market
		Value	Value
		£000	£000
Henderson			
UK Sterling	16th June 09	(840)	(840)
US Dollars	16th June 09	806	806
Futures UK LIFFE Long Gilt	26th June 09	3,327	3,327
Futures USA CBT 10 year	19th June 09	(1,298)	(1,298)
Futures USA Long Bond	19th June 09	724	724
AllianceBernstein			
Futures German DJ EURO STOXX 50	19th June 09	166	166

Forward Currency

Sterling	15th June 09	36,543	36,543
Canada	15th June 09	(962)	(962)
USA	15th June 09	(23,555)	(23,555)
Switzerland	15th June 09	(1,431)	(1,431)
Euros	15th June 09	(8,609)	(8,609)
Japan	15th June 09	(1,432)	(1,432)
Sweden	15th June 09	(674)	(674)

Derivative receipts and payments represent the realised gains and losses on contracts. The various derivatives are held for the following purposes:-

- Gilt futures. The manager purchases exposure to the value of gilts at a future date, paying a margin that increases / reduces as the value of the future varies. Futures are used because the market is liquid and costs are lower.
- Equity futures. The manager can purchase exposure to an equity market index that rises / falls in line with market movements. Again, futures are used because they are cheap, liquid, and give additional exposure.
- Currency exposure is obtained through futures, and has two main purposes. First, the pooled currency fund managed by Mellon took views on currency movements, seeking to make gains as currencies rose / fell. Second, the Fund has sought to protect the value of investments against adverse currency movements by fixing the sterling value in the future.
- Global Tactical Asset Allocation (GTAA) seeks to make gains through the relative movements in currency, bonds and equities. Exposure is gained through a pooled fund managed by Mellon.

AVC Investments

Individuals hold assets invested separately from the main fund in the form of with profits, equity related, or building society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVCs). Members participating in this arrangement each receive an annual statement made up to 31st March confirming the value of their account and the movements in the year. The aggregate value of the AVC investments are as follows:-

	2007/2008	2008/09
	£000s	£000s
Clerical Medical	123	127
Equitable Life	1,125	1,018
	1,248	1,145



10 Investment Management Expenses

	2007/2008	2008/2009
	£000s	£000s
Administration, management and custody fees	1,399	1,111
Performance measurement fees	18	18
Other advisory fees	21	14
	1,438	1,143

11 Current Assets

Contributions due

Employers	316	381
Employees	82	110
Additional voluntary contributions	3	3
Other miscellaneous debtors	201	358
	602	852

12 Current Liabilities

Management / advisor's fees	(214)	(176)
Lump sums not paid	0	0
Accrued expenses	(933)	(1,305)
	(1,147)	(1,481)

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


Finance and Corporate Resources
London Borough of Brent
September 2008



Designed by Brent Design Unit
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EMAIL design@brent.gov.uk

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	<p>Pension Fund Sub Committee 24th September 2009</p> <p>Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
<p>Report Title: Pension Fund Accounts 2008/09 – Annual Governance Report from the Audit Commission</p>	

1. SUMMARY

- 1.1 This report introduces the Annual Governance Report issued by the Audit Commission as part of the audit of the Pension Fund accounts for 2008/09.

2. RECOMMENDATIONS

- 2.1 Members are asked to note the report and pass any comments to the Audit Committee. .

3 DETAIL

- 3.1 The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. Members will be aware that the Brent Pension Fund has produced a separate Annual Report and Accounts for many years.
- 3.2 The Audit Commission, as external auditors to the Brent Pension Fund, have produced an Annual Governance Report (AGR) which will be approved by the Audit Committee. The Pension Fund Sub Committee has the opportunity to pass any comments on the AGR to the Audit Committee, which is meeting later this evening.
- 3.3 A representative from the Audit Commission will be present to introduce the AGR, but the main items are:-
- a) Subject to satisfactory clearance of outstanding matters, the auditor plans to issue an audit report including an unqualified opinion on the financial statements.
 - b) The auditor has not yet finalised their work on unquoted investments (hedge funds, private equity, property and global tactical asset allocation).
 - c) Two errors on the draft financial statements have been amended.
 - d) The auditor has not identified any material weaknesses in internal control.
- 3.4 Members are asked to pass any comments to the Audit Committee.

4. FINANCIAL IMPLICATIONS

These are set out within the report.

5 DIVERSITY IMPLICATIONS

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

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the plans.

8 BACKGROUND

Pension Fund Sub Committee – Pension Fund Accounts 2008/09 – June 23rd 2009-09

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

DUNCAN McLEOD
Director of Finance and
Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

Annual Governance Report

London Borough of Brent Pension Fund

Audit 2008/09

September 2009

DRAFT

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Status of our reports

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

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

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance and Corporate Resources on 9 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2); and

Yours faithfully

Andrea White
District Auditor
24 September 2009

DRAFT

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Audit opinion

- 1 My audit is now substantially complete and, subject to the satisfactory conclusion of outstanding audit procedures, I expect to issue an unqualified opinion on the financial statements subsequent to approval of the final statements by the Council. The text of the draft opinion is included at Appendix 1.
- 2 The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit.

Financial statements

- 3 The financial statements and notes submitted for audit were complete. A good audit trail was provided to support the financial statements. There were some minor disclosure errors identified during the course of the audit which were subsequently amended by management.

Audit Fee

- 4 The total indicative fee set in my 2008/09 Audit Plan issued in March 2009 was £38,000. The actual fee charged was in line with expectations.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

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

Opinion on the financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Please note that Appendix 1 is my full report on the Council's financial statements, which incorporates the opinion on the Pension Fund. Those sections pertinent to the Pension Fund are on pages 10 and 11.
- 7 My work on unquoted investments is substantially complete but not yet finalised. I expect to conclude my work in this area shortly and will report any significant additional findings to the Council and to the Audit Committee.
- 8 I cannot formally conclude the audit and issue a certificate as the Annual Report on the Pension Fund has not been prepared. In addition I am unable to issue a certificate due to outstanding legal proceedings. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

Materiality

- 9 In undertaking my audit I planned and carried out my audit applying the concept of materiality. As part of my audit I am required to obtain reasonable assurance that the financial statements are free from material misstatement. A material item within the financial statements is one which would affect the reader's view of the accounts.

Errors in the financial statements

- 10 The financial statements submitted for audit were complete. We noted the following errors on the financial statements:
 - **Note 6 – reclassification of lump sum benefits.** There was a reclassification of £46,000 of lump sum benefits between scheduled bodies and Brent Council.
 - **Note 10 – opening balances.** Equities from one fund manager had been disclosed at mid price rather than bid-price and therefore were not in line with the SORP. The adjustment resulted in an amendment of £202,000.

The above errors have been amended in the financial statements. Details of the amendments are included in Appendix 2.

Financial statements

Material weaknesses in internal control

11 I have not identified any material weaknesses in internal control.

Letter of representation

12 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

13 Areas of judgement and specific audit risk were considered during the course of the audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Contributions With effect from 1 April 2008, employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be being deducted and collected at the right rates.	The Council has put adequate arrangements in place for the deduction of contributions. Audit work concluded that contributions are presented fairly in the financial statements.
Investments The volatility in world financial markets impacts upon the value of the Pension Fund's investments holdings. There are risks around accurate recording at the year end.	The Council has accurately recorded year end investments holdings in its pension fund.
Annual Report New regulations require the preparation of an annual report for the Pension Fund incorporating the annual accounts.	The Council intends of producing and publishing an annual report for the Pension Fund by 30 November 2009. The Council have produced a draft Governance Statement.
Statement of Recommended Practice (SORP) The Pension SORP requires a new valuation method for investments with effect from 2008/09.	The Council materially complied with the Pension SORP and has reflected investments at bid rather than mid-market value, with one exception. (see paragraph 9 for details).

Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Brent for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes.. The Authority and Group 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 the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory

Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of (name of authority) in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Director of Finance and Corporate Resources responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority’s responsibilities

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

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing

economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Delay in certification of completion of the audit

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Brent pension fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. Due to outstanding legal proceedings I cannot formally conclude the audit and issue my certificate. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2 Adjustments to the Pension Fund

Adjusted misstatements	Nature of adjustment	Fund Account		Net Asset Statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 6: Lump sum benefits – Brent	Reclassification of lump sum benefits between Brent and scheduled bodies	46			
Note 6: Lump sum benefits – Scheduled bodies			46		
Note 10: Opening balances equities (£202k)	Adjusted to Bid price from Mid price				202

Audit Commission

Appendix 3 – Draft letter of representation

To: Andrea White
Audit Commission
Millbank Tower
1st Floor
Millbank
London
SW1P 4HQ

London Borough of Brent Pension Fund - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of London Borough of Brent Pension Fund, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

Supporting records

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

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Appendix 3 – Draft letter of representation

Contingent assets and contingent liabilities

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

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

Law, regulations, contractual arrangements and codes of practice

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

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

Irregularities

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

There have been no:

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

We also confirm that we have disclosed:

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

Post balance sheet events

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

Compensating arrangements

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


We confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2009.

Signed
Name Duncan McLeod
Position: Director of Finance and Corporate Services
Date

Signed
Name Gareth Daniel
Position: Chief Executive
Date

Signed
Name Councillor Cummins
Position: Chair of the Audit Committee
Date

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	<p style="text-align: center;">Pension Fund Sub Committee 24th September 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
<p>For Action</p>	<p>Wards Affected: ALL</p>
<p>Report Title: Monitoring report on fund activity for the quarter ended 30th June 2009</p>	

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 30th June 2009. 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) Public equity and credit markets rose during the quarter, while private equity and property fell in value. Markets have continued to rise strongly during July and August.
- b) Although performance is positive, the Fund has underperformed its benchmark over the quarter (2.7%) mainly as a result of underperformance in global equities and private equity, and asset allocation. The Fund also underperformed the average local authority fund (1.2%), again mainly as a result of poor performance in private equity. Over one year, the Fund has underperformed its benchmark (-7.7%) and the average fund (-7.8%) as a result of poor manager performance in fixed interest, global equities, currency and GTAA.

2. RECOMMENDATIONS

Members are asked to note this report.

3. DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 30TH JUNE 2009

3.1 All equity markets rose strongly during the quarter in the belief that the worst of the recession was passed. The UK rose by 8%, USA 15%, Germany 30%, and Japan by 23%. The UK economic background was:

- UK base rates remained at 0.5% as recession continued. Medium and long-term interest rates rose. However, credit markets have improved – LIBOR and LIBID have moved closer to bank rate. The Bank of England has increased its

programme of Quantitative Easing (QE) to increase the money supply and credit.

- Headline inflation (RPI) fell by 1.6% in the year to June (-1.2% April), and the Index of Consumer Prices (CPI) rose by 1.8% (2.3% April). It is expected that RPI inflation will fall by around 1.1% in 2009 to reflect lower oil, commodity, and food prices.
- Average earnings growth (including bonuses) was 2.3% p.a. in June (1% March), well below the Bank of England's 'danger level' (4.5%). Unemployment is rising sharply – up by 281,000 in the three months to May.
- The UK economy is now in recession and GDP may fall by around 4% in 2009 (GDP fell by 2.5% in Q1 and 0.8% Q2) but rise by 0.5% in 2010 (and 1.5% in 2011). Leading indicators of recovery – such as consumer confidence, business confidence and new car registrations – indicate that the trough in the recession may have been reached.
- It has been anticipated that consumer spending will fall, though retail sales grew in the year to June (2.9%). A number of retailers have issued profit warnings or entered administration. The squeeze on incomes, and the decline in equity withdrawal from the housing market as prices fall, may further depress demand. House prices have fallen over one year (-6.2%), and mortgage approvals are only 60% of their level two years ago. Capital Economics expects house prices to fall by a further 10% in 2009, but there are also indications that the market is stabilising.

In summary, GDP has shrunk and interest rates are expected to remain low. The government is using both fiscal and monetary policy to combat the downturn. There are signs that the economy has 'bottomed out' in March / April, and recovery is expected to be slow, but sentiment has improved considerably.

- 3.2 Central banks have co-ordinated activity to supply liquidity to markets so that credit is available to support economic activity. It is expected that USA economic growth will slow by around -3% in 2009, though the Fed is more optimistic and expects growth in the second half of the year. The Fed has reduced rates to 0% - 0.25% and introduced a major programme of quantitative easing, as a response to market volatility, rising unemployment (9.5%) and slow growth. There is evidence that the USA housing market is starting to form a base, and that the USA economy may grow by 1% in 2010 (the Fed expects 2.1% - 3.3%) . The ECB has reduced rates to 1% and taken measures to improve banks' liquidity, but it is expected that Eurozone GDP growth will shrink by -5% in 2009 not grow in 2010. Growth in China and India will slow to around 7.5% and 6% respectively in 2009 following events elsewhere, but accelerate in 2010 to around 9% and 7% respectively. The world economy is expected to shrink by -2.5% in 2009, but grow by 2% in 2010.
- 3.3 A paper on market events and future prospects is attached, written by the Independent Adviser.
- 3.4 Table 1 below shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately

analysed, but are included elsewhere. The WM Local Authority average asset allocation indicates little change apart from market movements.

Table 1: Asset Allocation as at 30th June 2009 compared with the Benchmark

Market (1)	Market Value 31.03.09 £M (2)	Market Value 31.03.09 % (3)	WM LA Average 31.03.09 % (4)	Fund Benchmark 30.06.09 % (5)	Market Value 30.06.09 £M (6)	Market Value 30.06.09 % (7)	WM LA Average 30.06.09 % (8)
Fixed Interest							
UK Gilts	16.0	4.6	10.9	4.5	15.3	4.2	4.3
Corp.Bonds	23.6	6.8	*	4.5	23.3	6.4	4.9
IL Gilts	-	-	6.3	-	-	-	5.4
Credit alpha	4.5	1.3	-	1	5.1	1.4	-
Overseas	-	-	2.8	-	-	-	2.8
Emerg. Market	3.9	1.1	-	-	4.0	1.1	-
Infrastructure	1.4	0.4	-	0.5	1.4	0.4	-
Secured loans	15.6	4.5	-	5.5	18.4	5.0	-
Credit Opportunities	10.2	2.9	-	2	11.4	3.1	-
Equities							
UK FTSE350	80.9	23.3	31.5	19.5	93.7	25.6	31.0
UK Smaller co's	9.5	2.7	*	4.0	12.5	3.4	*
Overseas	59.6	17.2	31.3	27.5	69.0	18.8	31.9
USA	30.9	8.9	9.8	-	32.5	8.8	9.3
Europe	14.6	4.2	8.7	-	18.3	5.0	9.0
Japan	4.1	1.2	3.8	-	5.1	1.4	3.8
Pacific	4.3	1.2	3.4	-	5.0	1.4	3.7
Other	5.7	1.7	5.7	-	8.1	2.2	6.1
Other							
Property – UK	19.0	5.5	6.5	8.0	17.0	4.6	5.8
Property – Eu.	10.1	2.9	*	*	10.1	2.8	*
Hedge funds	36.9	10.6	1.8	10.0	38.8	10.6	1.8
Private Equity	31.8	9.2	3.3	8.0	25.6	7.0	2.9
GTAA	6.0	1.7	-	4.0	6.7	1.8	*
Cash	18.4	5.3	4.3	1.0	13.8	3.8	4.4
Total	347.4	100.0	100.0	100.0	366.1	100.0	100.0

3.5 The main changes have occurred as a result of sharp market movements (equities and credit) and the valuation of private equity funds. During the quarter, £1.74m was invested in private equity. It has been agreed that £0.75m should be returned from the fixed interest portfolio each month, and £2.5m per month invested in global equities. Since the end of the quarter there has also been further investment in private equity (£1m), but progress is slow.

Performance of the Fund

3.6 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 30th June 2009.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30.06.09			Year Ended 30.06.09			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
UK Equities			11.1			-19.9	
UK Equities	11.7	10.5		-19.0	-20.5		FTSE 350
UK Small Caps	31.5	32.7		-22.1	-21.0		FTSE Smallcap ex IT
Global Equities	11.8	14.7	7.5	-35.5	-22.5	-18.2	FTSE World 75% Hedge
North America	-2.8	12.1	1.8	-28.8	-23.4	-14.5	FTSE USA
Europe	13.6	17.0	8.6	-22.7	-25.8	-20.3	FTSE Eu Ex UK
UK	8.4	10.9	11.1	-	-20.5	-19.9	FTSE All Share
Japan	10.9	16.3	7.0	-23.2	-26.1	-9.6	FTSE Japan
Pacific (ex Jap)	12.8	23.3	15.0	-15.2	-10.9	-7.9	FTSE Pac. Ex Jap
Other	22.6	8.8	14.9	-18.5	-11.5	-14.3	FTSE World (Other)
Fixed Interest							
Total Bonds	7.8	1.7	3.1	-1.3	7.4	4.1	Brent benchmark
UK Bonds	-1.0	-1.6	-0.3	9.5	6.7	7.0	FTSE UK All Gilts
Index Linked UK	-	-	3.9	-	-	0.5	-
Corp Bonds	5.7	6.4	9.2	7.1	1.3	-0.5	ML Sterling Non-gilt
Secured Loans	18.8	1.2		-13.3	7.1		3 month LIBOR +3%
Credit Opportunities fund	12.7	1.2					3 month LIBOR+3%
Other							
UK Property FOF	-10.1	-7.1	-4.2	-30.5	-25.5	-27.4	IPD All Properties
Eu Property FOF	-0.2	-7.1		8.5	-25.5		IPD All properties
Hedge Funds	5.2	1.3	3.2	-8.9	7.4	-13.8	3 month LIBID+4%
Private equity	-26.7	0.1	-11.6	-11.4	2.4	-9.5	LIBID 7 Day
GTA	13.2	9.7		-57.6	-20.9		FTSE 100
Cash	-0.5	0.1	1.1	n/a	2.4	2.6	GPB 7 DAY LIBID
Total	5.2	7.9	6.4	-21.4	-13.7	-13.6	

3.7 Details of individual managers' performance tables are attached in Table 3, which shows three month, one year and three year information. Returns for the quarter were positive, but underperformed the benchmark by 2.7% as a result of asset allocation (mainly lower exposure to equities and higher exposure to fixed interest and cash) and stock selection (global equities, private equity and property). The main stock selection factors were:-

- Fixed interest. Once again there was outperformance in government and corporate bonds as the manager overweighted the fast recovering corporate bonds. Secured loans and the Credit Opportunities Fund also recovered in improving credit markets – the funds are well placed for further growth.
- UK FTSE350 Equities added value as the portfolio outperformed the index.

- c) Hedge fund of funds outperformed as macro, multiple strategy and equity related strategies were successful.
- d) GTAA. The manager outperformed as three of the strategies – equity against bond, bond against bond and currency – have been successful. Bond market stock selection has lost money, but some of the positions have improved in July.
- e) Global equities underperformed the benchmark through a combination of underweighting emerging markets (which rose sharply) against the FTSE World index, financials and materials. It appears that the sectors that undermined performance in 2008, causing AllianceBernstein to reduce exposure, recovered last quarter. However, AllianceBernstein have outperformed the average manager through additional exposure to emerging markets against the MSCI and the impact of the currency hedge as sterling rose.
- f) Property. There are indications that the UK market may stabilise in 2009 – the current market yield looks attractive when compared to bank rate and gilt yields, though returns are now falling as vacancies increase..
- g) Private equity. The value of the portfolio has been sharply reduced as new valuations better reflect falling public markets and the prices on offer for secondaries. Investment activity has been reduced by the declining availability of credit. Some giant funds, such as Permira, are working to preserve cash as selling opportunities are reduced.

3.8 Over one year, the Fund underperformed the benchmark by 6.7%. Asset allocation – lower exposure to equities, exposure to alternatives - has been positive. The main stock selection factors were those that impacted previous quarters. First, the sub prime and credit crises that undermined financials in Global equities, and the Henderson Secured Loans and Absolute Return Funds. Second, poor performance in both currency and Global Tactical Asset Allocation. Poor performance in currency was caused by the market moving away from fundamentals, the rise in the value of commodity currencies and the failure of the model to forecast interest rate changes. Poor performance in GTAA was mainly caused by currency losses and forecasts that equities would outperform bonds. Hedge funds suffered in the market turbulence surrounding the collapse of Lehman Brothers. Private equity is also suffering as funds are valued to reflect the sharp declines in public markets.

3.9 The relative underperformance of the Brent fund against the WM Local Authority average over the quarter derives from the factors set out in paragraph 3.8, the main influence being the asset allocation followed by the Brent Fund.

3.10 The Brent fund has underperformed the average local authority fund by 6.8% over one year for the reasons set out in paragraphs 3.8 and 3.9.

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

3.11 There has been little activity during this quarter as markets remained volatile. Some dividends (£0.95m) have been reinvested as markets fell.

Purchases

- a) Purchased stocks to ensure more accurate index tracking (such as Fresnillo and Pace).
- b) Took up rights issues, such as 3I, DSG and various property groups.

Sales

- a) Sold stocks to ensure more accurate index tracking or as they left the index (Thompson-Reuter)

Future Strategy for the UK FTSE350 Index tracking fund

- 3.12 The strategy is that of tracking the FTSE 350 within 0.5% over the year. Activity during July and August included taking up rights issues.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

- 3.13 Following members' agreement to appoint July, the Brent Pension Fund has joined the Alinda Infrastructure Fund. It is anticipated that the first investment in the Fund, expected to be around 25% of commitment (£6m) will be called in September / October.
- 3.14 Equity markets have risen during July and August as investors have focused on low share prices and the belief that the worst falls of the recession may have occurred. Other markets, particularly credit markets, have also improved as low interest rates and quantitative easing make riskier assets attractive.
- 3.15 Fauchier Partners expects opportunities to arise in distressed asset backed and commercial debt. The property manager expects UK commercial property prices to begin to stabilise, but that falling rents as a result of declining economic activity will undermine returns. However, the freeze in purchase and sale of units has ended, enabling Brent to resume reinvestment of dividends. The manager also expects the European market to continue to fall. The UK small company manager, Gartmore, expects excellent opportunities in individual stocks, and is optimistic. The private equity manager, Capital Dynamics, reports that investment activity has slowed sharply and that valuations have reduced to reflect falling equity markets. However, there should be opportunities in secondary investments (existing funds purchased from investors). The fixed interest manager believes that there are good opportunities in corporate bonds and secured loans, but a potential bubble in government bonds as issuance increases.
- 3.16 Henderson have reported that their Infrastructure Fund is experiencing considerable difficulties. The Brent Fund invested £1.9m in the Infrastructure Fund in 2006, initially with good results. However, officers have been aware that Henderson took part in a bidding battle to buy the main asset – John Laing, formerly a FTSE250 company – and paid a very high price for control. This year the Infrastructure Fund has been hit by a series of issues – the pension fund deficit which led to the value of the investment being marked down by 38% in March, the

cancellation of various sales because bid prices are very low, the requirement to repay or refinance debt (caused by the inability to sell assets), and the requirement to value assets at current market prices. It is likely that the requirement to value assets at current market prices will lead to a further severe mark down.

- 3.17 As expected, investment analysts are becoming more confident about the future progress of markets. It is felt that the world economy will grow in 2010. However, it is anticipated that growth will be slow, and that hopes of sharply rising profits may prove over optimistic.

4. FINANCIAL IMPLICATIONS

These are contained within the body of the report.

5. STAFFING IMPLICATIONS

None directly.

6 DIVERSITY IMPLICATIONS

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

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8. BACKGROUND INFORMATION

AllianceBernstein – June 2010 quarter report.

Henderson Investors – June 2010 quarter report

WM Annual report for 2008/09.

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, 020 8937 1472/1473 at Brent Town Hall.

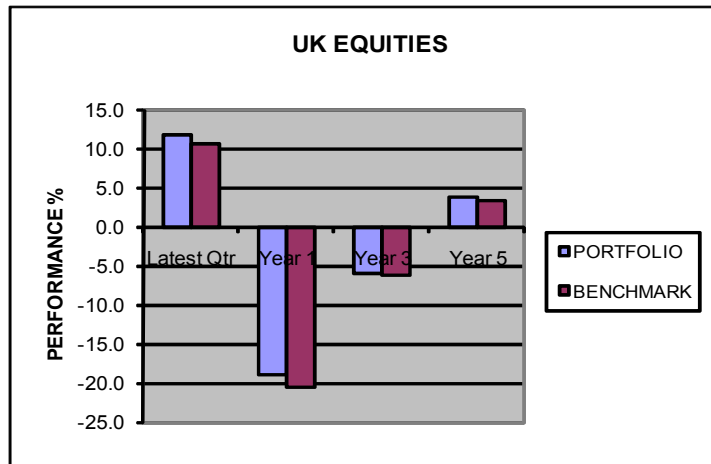
DUNCAN McLEOD
Director of Finance & CR

MARTIN SPRIGGS
Head of Exchequer and Investment

PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 30th June 2009

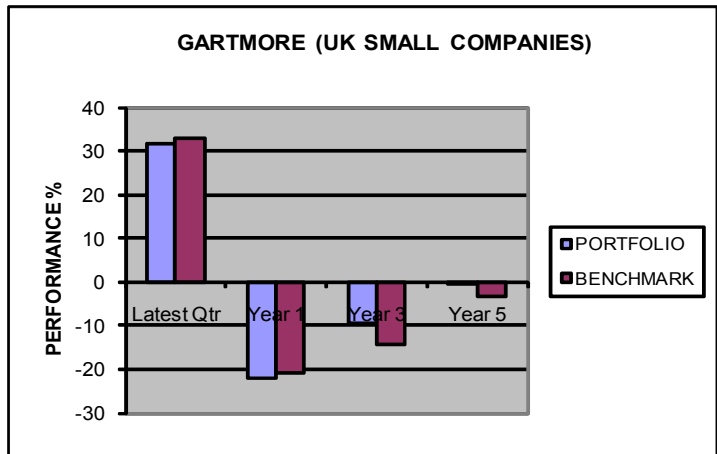
UK EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	11.7	10.5
Year 1	-19.0	-20.5
Year 3	-6.0	-6.3
Year 5	3.7	3.2



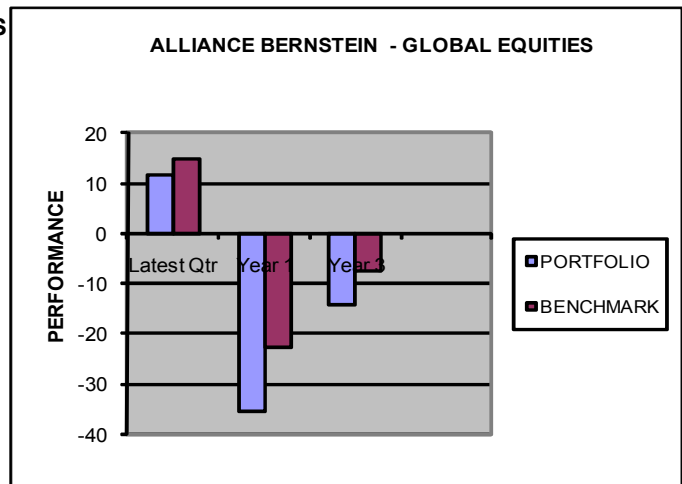
GARTMORE (UK SMALL COMPANIES)

	PORTFOLIO	BENCHMARK
Latest Qtr	31.5	32.7
Year 1	-22.1	-21.0
Year 3	-9.4	-14.2
Year 5	-0.05	-3.5



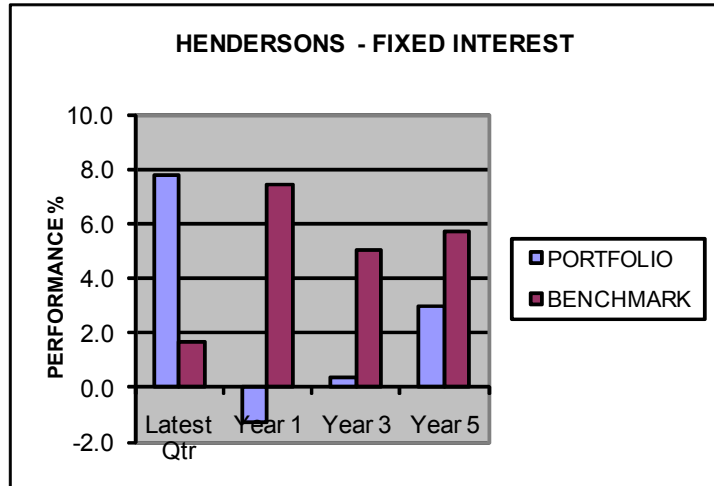
ALLIANCE BERNSTEIN - GLOBAL EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	11.8	14.7
Year 1	-35.5	-22.5
Year 3	-14.0	-7.5



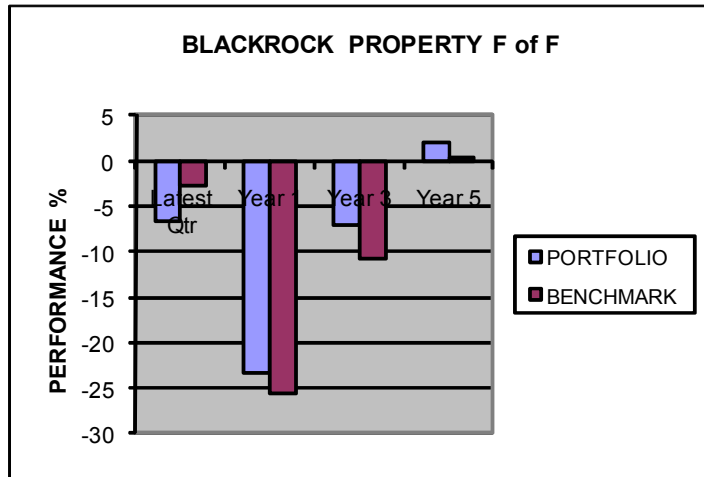
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	7.8	1.7
Year 1	-1.3	7.4
Year 3	0.4	5.0
Year 5	3.0	5.7



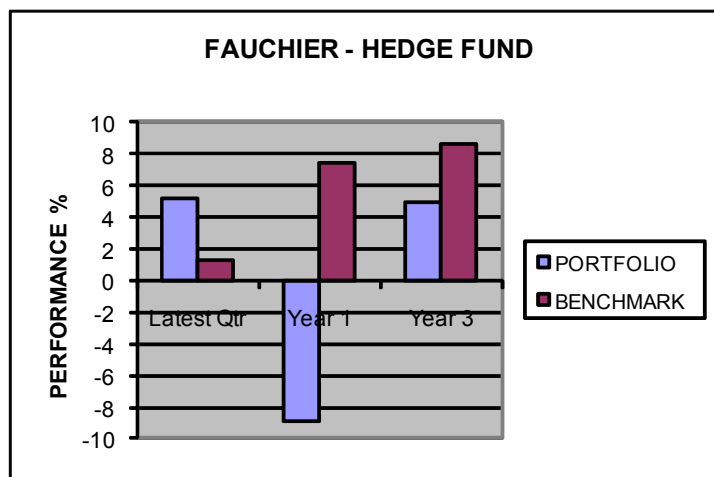
BLACKROCK PROPERTY F of F

	PORTFOLIO	BENCHMARK
Latest Qtr	-6.7	-2.7
Year 1	-23.4	-25.6
Year 3	-7	-10.7
Year 5	2.1	0.3



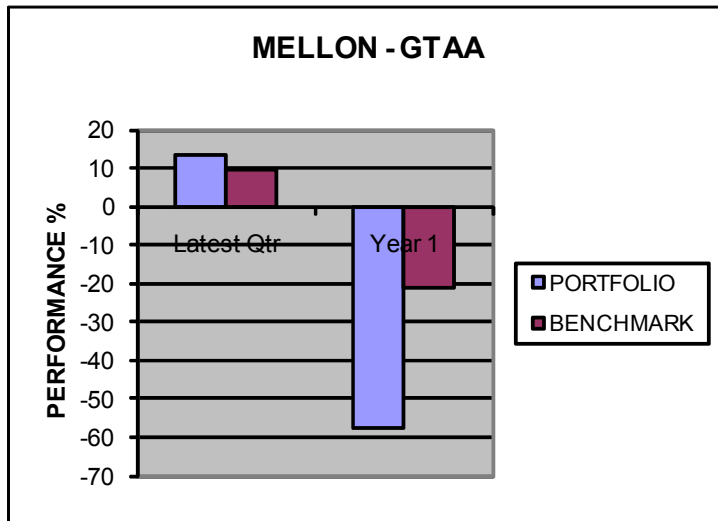
FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	5.2	1.3
Year 1	-8.9	7.4
Year 3	5	8.6



MELLON - GTAA

	PORTFOLIO	BENCHMARK
Latest Qtr	13.2	9.7
Year 1	-57.6	-20.9



Report from the Independent Adviser

Investment Report for the Quarter ended 30th June 2009

Market Commentary

	Index returns expressed in sterling	Quarter ended 30th June 2009
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	17.4
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	16.2
UK	FTSE All Share	10.9
Europe	FTSE Developed Europe (ex UK)	9.7
Japan	FTSE Developed Japan	7.0
North America	FTSE North America	1.8
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	6.7
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	3.5
UK Gilts	FTSE British Government All Stocks	-1.3
Property	CAPS Property	-4.8
Cash	LIBID 7 day return	0.1

Currency Movements for quarter ended 30th June 2009

Currency	31 st March 2009	30 th June 2009	Change %
USD/GBP	1.433	1.647	+14.9
EUR/GBP	1.080	1.174	+8.8
USD/EUR	1.328	1.403	+5.6
YEN/USD	98.770	96.485	-2.3

As depicted in the table above, on the whole equity index returns for the reported quarter were surprisingly robust. Emerging markets (+17.4%) and Asia (+16.2%) were particularly strong with North America the clear laggard at +1.8%, clearly influenced by the strength of sterling over the quarter. Within the fixed interest classes both corporate bonds (+6.7%) and UK index linked gilts (+3.5%) flourished whilst gilts came in at a disappointing third, down -1.3%. No doubt affected by the Government's adherence to its quantitative easing programme, a printing money exercise by any other name. The currency movement table shows the strength of sterling up 14.9% against the US\$ and 8.8% against the Euro. Property (-4.8%) continued to languish as it plumbed the depths of its most severe down cycle.

One of the principal propellants behind the strong equity performances was the very low returns available on cash deposits and savings accounts which caused both institutions and private individuals to commit some of their liquidity to the equity market place, often in high quality shares with yields in excess of 5.0%. Investors had also become nervous at being out of the markets for too long lest they should miss the vital turning point in the recession cycle heralding a genuine recovery in economies and underlying share values. Additionally, macro economic data and forecasts from respected institutes and

central banks caused investors to understand that, although economic growth rates were still falling, they were declining at a much lesser rate than last year. And the most important influence of all was the perception that the amalgam of reduced rates of taxation, low interest rates and, enormous concerted central bank support programmes, including quantitative easing was at long last having a remedial effect on economies. By way of illustration current central bank interest rates are as follows:-

	%
USA FED	0-0.25
ECB	1.0
Bank of England	0.5
Switzerland	0-0.75
Japan	0.10

There has been a tangible easing in volatility. In short, alarms of a deep depression with all that entailed have lessened and the duration of the current recession is generally being estimated to be shorter than was at once feared, when the monetary and market systems both in the UK and globally, appeared to be on the edge of an abyss.

UK

Positive Influences

- The manufacturing purchasing managers' index for June increased to 47.0 from the 45.9 recorded in May.
- House prices rose by 1.2% in April.
- The British Retail Consortium reported a rise of 3.2% p.a. in June retail sales (May +0.8% p.a.).
- The purchasing managers' index for the services sector rose to 51.7 in May from 48.7 in April, the sixth consecutive monthly rise.
- The Bank of England's mortgage approvals for house buying grew to 43,000 in April, an improvement on the 40,000 recorded in March. This was the third consecutive monthly rise.
- The Office of National Savings said April retail sales returns expanded by 2.6%. This was higher than consensus economists' predictions.
- Corporate investment receded by 8.4% in the year to April 2009.
- June CPI reduced to 1.8% from 2.2% in May against the Bank of England's target of 2.0%.

Negative Influences

- In the three months to May unemployment rose by 281,000 to a 13 year high of 2.38M, the largest quarterly increase since records began in 1971.
- The OECD estimates that the UK economy will contract by 4.3% in 2009 and expects "modest growth in 2010". On 13th May Mervyn King gloomily stated "the risks are weighted towards a relatively slow and pedestrian recovery". He added "there are pretty solid reasons for supposing there will be a recovery next year, but also reasons for questioning if this will be sustained".

- On 22nd May British Airways scrapped its dividend policy and gave no profit guidance. Other companies to cut their dividends were Marks & Spencer and BT.
- The Financial Times house prices index fell 0.3% in June or 13.1% p.a.
- GDP growth for the first quarter of 2009 was revised down to 2.4% from the previous estimate of -1.9%.
- Manufacturing output decreased by 0.5% in May, equivalent to a fall of 13.7% annualised. This was weaker than expected.
- The Bank of England, through its quantitative easing programme, as of 31st May, now owns £103B of tradable gilts, equivalent to 15% of the whole gilt market. This is the most aggressive programme of any of the leading central banks. By way of comparison, the Federal Exchange Board owns just 3.0% of US Treasury stock.
- It is estimated that one in ten borrowers with good credit records are trapped in negative equity according to the Fitch rating agency. The UK has the largest number of negative equity positions and repossessions in Europe.
- On 24th June Mervyn King, the governor of the Bank of England, insisted that the Government's "extra ordinary and enormous levels of borrowing" had to be reduced at a faster rate than the government planned.
- The highly indebted West Bromwich Building Society is struggling to retain its independence.
- The Standard & Poors credit ratings agency cut its economic outlook from stable to negative, stating worries over the Government's mounting debt. The agency placed the UK on "negative watch" due to the poor state of the country's public finances. It also worried that the UK might lose its triple A credit rating which would of course result in higher borrowing costs for the British Government.

USA

Positive Influences

- The Treasury ordered certain large banks to submit to stress tests with Tim Geithner, the Treasury Secretary, reportedly stating "these tests will help ensure that banks have a sufficient capital cushion to continue tending in a more adverse economic scenario".
- The Institute for Supply Management's (ISM) manufacturing index recorded 47.0 in June, up from 44.0 in May. This was better than forecast.
- First quarter GDP growth was revised up to -5.5% from -6.1%. By contrast, GDP growth in the fourth quarter of 2008 was a negative 6.3%.
- May housing starts advanced by a surprisingly robust 17.2%. In that regard Bernanke said "there are signs of bottoming in the housing market".
- The Federal Reserve Board "continues to anticipate that economic conditions are likely to warrant exceptionally low levels of federal funding interest rates for an extended period".
- Retail sales were up 0.5% in May.
- Pending house sales increased by 6.7% in April, the biggest gain for more than 7 years.

Negative Influences

- 467,000 jobs were lost in June versus a consensus estimate of 350,000. The underlying rate of unemployment rose to 9.5% from 9.4% in May, the highest rate for 26 years.
- The Conference Board's index of consumer confidence fell markedly to 49.3 in June, down from 54.8 in May.
- The state of California is grappling with its most severe financial crisis as its governor Schwarzenegger addresses a \$26B deficit. The state has resorted to issuing IOUs. As a consequence the Fitch rating agency has downgraded California to A minus.
- May industrial production receded by 1.1% in part due to car plant closures.
- May consumer prices rose a minuscule 0.1% which was below market expectations.
- Bernanke, the governor of the FED cautiously state "a US recovery will only gradually gain momentum".
- On 1st June General Motors filed for Chapter 11 bankruptcy.
- Producer prices in June rose 1.8%, well ahead of estimates and largely due to an 18.5% lift in petrol prices.

Europe

Positive Influences

- German manufacturing orders for May increased by 4.4%, much better than the consensus forecast of +0.5%.
- German industrial production increased by 3.7% in May, but on an annualised basis, it was down by 17.9%.
- The IFO Institute's German business climate index advanced to 85.9 in June from 84.3 in May.
- The Eurozone purchasing managers' index for May increased to 42.4 from 40.7 in April.
- The OECD estimates that Italy's GDP will grow by 0.4% in 2010 versus a previous estimate of -0.4%.
- On 7th May the ECB cut interest rates by ¼% to 1%.
- On 11th May Mr Trichet, governor of the ECB, said many Eurozone countries had now seen the worst of the recession. He stated "in all cases we see a slowing down of the decrease in GDP".
- The ECB lent €375B to more than 1,100 banks in an attempt to unlock credit markets.
- On 7th May the ECB cut interest rates by ¼% to 1%. However, on 4th June the ECB left interest rates unchanged with Trichet, the governor, predicting positive Eurozone growth by the middle of 2010. Nevertheless, he warned on rising unemployment.
- Industrial production in the Eurozone increased by 0.5%, below most expectations.
- Eurozone inflation in May dropped to zero, (April +0.6%), the lowest rate since 1991.

- Consumer spending in April on manufacturing goods rose 0.7%, better than expected.

Negative Influences

- The Spanish government estimates that the economy will shrink by 3.6% in 2009 and by 0.3% in 2010.
- The Bundesbank estimates that German GDP will fall by 6.2% in 2009.
- Eurostat reported that the Eurozone's unemployment rate in April increased to 9.2% (March 8.9%).
- Swiss GDP for the first quarter of 2009 fell 0.8% making a fall of 2.4% for the year, the biggest drop since 1976.
- Swiss exports in the first quarter of 2009 fell 5.4% (quarter four 2008 -8,7%).
- Russia's economy contracted by 10.1% in the first half of 2009.

Japan

Positive Influences

- Industrial output in May increased by 5.9%, the highest rise recorded since March 1953. However, on an annualised basis the drop was a marked 29.5%.
- April retail sales increased 0.6%.
- Despite its own recession Japan felt able to offer \$100B to those Asian states most affected by the financial crisis.

Negative Influences

- There are countless calls for the prime minister Aso to step down to make way for a stronger candidate ahead of the forthcoming election which has to be held before October. Currently the Democratic party is making large inroads into the ruling Liberal Democrats.
- May exports fell no less than 41%p.a. largely due to the collapse in markets for electronics and cars.

Asia

Positive Influences

- China has demonstrated that it is likely to become the world's largest exporter. This will further highlight the importance of its currency the renminbi.
- China's industrial production in May expanded at a rate of 8.9% p.a. (April 7.3% p.a.) whilst retail sales grew more strongly by 15.2% p.a. (April 14.8% p.a.).
- China's June exports increased 7.5%.
- China's June car sales increased by an enormous 48% p.a.
- The Hong Kong authorities introduced additional economic stimulus measures of £1.4B.
- On 18th May, in the Indian parliamentary elections, the Congress Alliance won a second term of office. On this news Mumbai's stock market advanced 17.0%.

- Australia's GDP in the final quarter of 2009 grew by 0.4%, helped by strong exports.
- Whilst Singapore's second quarter GDP dropped by 3.7% this was a considerable improvement on the first quarter's fall of 9.6% p.a. The Government is now estimating a fall in GDP of 4 to 6% in 2009 versus its previous estimate of a fall of 6 to 9%.

Negative Influences

- The Malaysian government estimates that its economy is likely to shrink by 5.0% in 2009.
- Singapore's first quarter rate of GDP collapsed at an annual rate of -10.1%. Its government has estimated that the nation's rate of GDP is likely to contract in 2009 in the range of 6.0 to 9.0%.

Conclusion

At some stage the vast array of emergency measures across the world will have to be unwound. This process will embrace debt repayment by governments, banks, corporations and consumers. In other words it is pay back time and this deleveraging programme will be both painful and lengthy – possibly more lengthy than markets are currently discounting. Certainly governments will implement heavy tax rises and severe cut backs in public spending.

As time goes by, if macro economic data improves then in turn the investor appetite for risk may also improve. Particularly if it can be seen that the global economic recession has indeed moved past its low point. Certainly there are a few mildly encouraging straws in the economic wind. Namely OPEC has stated "we are beginning to see light at the end of the tunnel" and has forecast a price in the region of \$75-80 a barrel with demand expected to pick up from China, India and Asia. Also the Baltic Dry Index, a usually reliable barometer of world trade, at the end of May jumped 7.6% through the 3000 mark for the first time since October due, in part, to increased transport demand for iron and coal. However, on the bear tack, the World Bank estimates that the global economy will shrink by 2.9% in 2009 versus its previous estimate of a 1.7% contraction. When economic growth eventually emerges it will be led just as much by China as by the USA. It is significant that in the recent past, whereas the economies of the USA, UK, Europe and Japan have ostensibly shrunk into recession, those of China and India have continued to grow, albeit at a lesser rate than in the past. There seems little doubt that the baton of world economic leadership will, in the future, most surely pass from the Western Hemisphere to that of the East.

On the currency front, sterling is likely to suffer erosion as it is recognised that the state of the UK economy is one of the very worst of the industrialised nations and will take the longest time to recover. The US dollar could also come under pressure, although to a lesser extent than sterling.

Another prerequisite for an improvement in investor sentiment is to be assured that governments and central banks have at last been successful in pressuring the banks to finally recommence lending to credit starved companies and to cash starved individuals, thereby at last unclogging the national arteries for supplying a much needed life blood transfusion to the financial system. Only then will the scene be set for an improvement

in the investment landscape embracing equities, property, private equity, hedge funds and other alternatives. All these asset classes have been so badly damaged by a lack of liquidity.

It is a fool's game to predict that it is possible to accurately deduce the bottom of the market as no celebratory flag gets raised. That said, if the economies of the leading industrialised nations start to exhibit genuine and consistent rates of recoveries, most likely at the start of next year, then this could start to be discounted by stock markets in the final quarter of this year. Until then beware of false dawns and bear market rallies. The old adage will be more important than ever before – caveat emptor!

Valentine Furniss

Investment Report for the month of July 2009

	Index returns expressed in sterling	Month ended 31st July 2009
		%
Equities		
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	10.8
Emerging Markets	MSCI Emerging Markets Free	10.6
Europe	FTSE Developed Europe (ex UK)	10.4
UK	FTSE All Share	8.5
North America	FTSE North America	7.2
Japan	FTSE Developed Japan	3.4
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.7
UK Gilts	FTSE British Government All Stocks	-0.8
UK ILGs	FTSE British Gov. Index Linked Over 5 years	-1.0
Property	Caps Property	N/A
Cash	LIBID 7 Day	0.03

Currency Movements for month ended 31st July 2009

Currency	30th June 2009	31st July 2009	Change %
US \$/£	1.647	1.658	+0.7
Euro/£	1.174	1.169	-0.4
US \$/Euro	1.403	1.418	+1.1
Yen/US \$	96.485	95.195	-1.3

The return tables above for the month of July demonstrate that equity markets have continued the very strong momentum of the quarter to 30th June 2009. Asia/Pacific, Emerging Markets and Europe led the way with double digit returns followed by a 8.5% return from the UK. The return from North America was also buoyant and even Japan managed a 3.4% return. Within Fixed Interest only corporate bonds managed a positive return with both index linked gilts and pure gilts disappointing with negative returns – scarcely surprising with all the Bank of England machinations regarding increased quantitative easing and other pseudo sophisticated ploys. No return for property was available for the month, but suffice it to say that, when it is published, it will almost certainly be marginally negative. Hedge fund of funds, although not shown in the table, continued to provide a worthwhile positive return, thus proving their worth as a form of portfolio insurance in all market conditions.

Influences of a general nature during the month were as follows:-

- Fears that interest rates might rise in the longer term together with inflation and government budget deficits.
- Investors with an increasing appetite for risk being prepared to switch substantial amounts of liquidity from very low yielding money market funds and deposits into equities.
- Reported corporate earnings being generally been higher than expected together with accompanying statements suggesting the worst is over with improving second half outlooks. In certain areas earnings have been boosted by a rush to replenish corporate inventories which had been allowed to sink to unrealistically low levels.

Macro economic data and events from the regions were:-

UK

- Due to the extremely weak state of the nation's public finances there has been an increasing pressure for investors to sell both gilts and sterling. Furthermore, concerns regarding an oversupply of gilts has caused investors to switch their holdings to high quality corporate bonds.
- The growth of GDP in the second quarter of 2009 was much worse than expected in recording a 5.6% drop. In part this awful figure was due to dire conditions in the service industry.
- On 9th July the Bank of England held interest rates at ½% and announced no further expansion of its controversial quantitative easing programme (printing money).
- The National Debt service line said that it had received a record number of calls from consumers worried about credit card arrears. Scarcely surprising as the UK consumer is one of the most indebted in the world, with the possible exception of the USA.
- The Land Registry index for house prices rose by a miniscule 0.1% in June. This was the first rise since January 2008. This could indicate that the market is bottoming out.
- The purchasing managers' service sector index increased to 53.2 in July from 51.6 in June.
- In July new car registrations grew by 2.4% to 157,149, the first rise since April 2008 in part due to the government's car scrapping incentive.
- The British Retail Consortium reported that July retail sales increased by 3.6% p.a. (June +1.2% p.a.).
- In the second quarter of the year 33,073 people in England and Wales became insolvent this represented an annualised rise of 27.4%, the highest figure since records began in 1960.

USA

- Existing home sales were up by 3.6% in June, the third successive monthly rise.

- Over the corporate reporting season the majority of companies have exceeded earnings expectations and have been appreciably better than expected. A reflection no doubt of the speed at which US companies are able to cut costs and boost productivity in weakening economic conditions. Sadly this has a social cost in rising unemployment levels and concerns over job security.
- On 13th July Tim Geithner, secretary of state, said “policy has been very successful in arresting and mitigating the force of the storm and we are starting to see a better basis for recovery”.
- On 17th July CIT (a large US company lending to small businesses) announced it was facing bankruptcy and would most likely file for Chapter 11.
- On 21st July Bernanke of the FED stated, in his biennial report to Congress, “I want to be clear that we have a very long haul here because even if the economy begins to turn up in terms of production, unemployment is going to stay high for quite a while. So its not going to feel like a really strong economy.
- On 23rd July the Dow Jones industrial index advanced strongly through 9000, buoyed by better than expected corporate earnings.
- On 29th July the Federal Reserve’s Beige Book (depicting a picture of the economy) suggested that overall economic activity has stabilised at a low level versus June’s report which showed that economic conditions had been weakening.
- House prices grew by 0.5% in May, but were down 17.1% on an annualised basis. This was the first monthly rise in prices since the peak in July 2006.
- The Conference Board’s index of consumer confidence in July receded to 46.6 from 49.3 in June.
- New home sales advanced by 11.0% in June.
- Car sales in July were up a marked 16.0% due to the government’s scrappage initiative.
- Second quarter GDP growth was -1.0% versus a negative 6.4% in the first quarter.
- The IMF estimates that US GDP will only grow by a meagre 0.8% in 2010.
- The Institute for Supply Management’s non manufacturing index eased to 46.4 in July from 47.0 in June.
- Job losses in July were 247,000 compared with a consensus estimate of 320,000. The unemployment rate slipped from 9.5% in June to 9.4% in July.

Europe

- France’s purchasing managers’ index eased fractionally to 47.2 in July from 47.8 in June.
- Germany’s composite index of manufacturing and services increased strongly to 48.9 in July compared with 44.0 in June.
- Germany’s IFO Institution’s business climate index advanced to 87.3 in July (June 85.9).
- German exports in June rose 7.0% whilst industrial orders increased by an unexpectedly strong 4.5%.
- German unemployment in July was unchanged at 8.3% which was a better result than expected.
- Sweden’s trade surplus in June expanded to SK17.3B (May SK9.7B) due to the marked growth in exports as a result of the Krona’s weakness.

- Spanish GDP for the second quarter of 2009 fell 0.9% (first quarter -1.9%).

Japan

- On 13th July the prime minister, Taro Aso, announced a general election for August 30th. This could easily prove to be political suicide both for him and his Liberal Democratic Party who have been dominant for so long.
- June machinery orders rose by 9.7%.

Asia/Pacific

- India's central bank warned that inflation could rise to 5.0% by March 2010.
- China's foreign exchange reserves reached £1,307B at the end of June reflecting a robust economy which proved highly attractive to foreign investors. Indeed, there are distinct signs that China will use its foreign exchange reserves (the largest in the world) to make further investments and acquisitions overseas.
- China's second quarter GDP growth was 7.9%, very close to the government's declared target growth of 8.0% for 2009 as a whole.
- Indonesia's second quarter GDP rate grew by 4.0% p.a. (first quarter +4.4% p.a.).

Conclusion

In the recent past some investors have been carried on a wave of flawed optimism, assuming some magic wand will, in the near future, restore economies to their erstwhile pre credit crunch strength. This optimism has translated into higher equity market values. For instance, the FTSE 100 index, over 11 consecutive sessions to 27th July, rose by 10.6%.

In the less optimistic camp investors have adopted a more realistic attitude suggesting markets are not out of the bear woods yet and that there is still more bad news to be announced concerning the debt levels of governments, corporations and individuals, particularly in the UK with the appalling state of its public finances. At the time of writing, this former camp of investors are having the greater influence in stock markets and have demonstrated that they are increasingly prepared to look across the valley of economic despair to the better times they envisage next year.

Taking into consideration the strong equity market returns for the month of July, nothing of sufficiently material impact has occurred to alter the principal conclusions reached in the report for the quarter ended 30th June 2009. That is to say, a sustained recovery in markets will most likely have to await the final quarter of the year in anticipation of positive increases in respective rates of GDP growth in the first quarter of 2010. As mentioned before, rates of GDP growth in the Western Hemisphere countries of the USA, the UK and the Eurozone nations will probably be somewhat anaemic compared with the more positive growth rates of China, India and other emerging markets. Japanese growth is likely to be distinctly lacklustre. With regard to other asset classes, fixed interest returns could well be flat (with the exception of corporate bonds), the property down cycle is not over yet, private equity will continue to suffer from both lack of investor interest together with a scarcity of liquidity. Hedge fund of funds should continue to prove their worth and build on their

good performances so far in 2009. There will also be attractive opportunities in infrastructure. It is currently fashionable to predict which letter of the alphabet will best describe the course of economic recovery? A shallow shaped U most probably, as opposed to the W which the majority of economists are currently expecting. However, it should be emphasised that most of the economic forecasts made over the last 6 months have often proved to be wide of the mark. Hence the current forecasts should be taken with a proverbial pinch of salt.

In summary it should be stressed again that it will be many years before the current levels of government, corporate and consumer debt are paid off. In the shorter term markets will also have to contend with the harrowingly high rates of unemployment and the consequently poor sentiment that this brings both for nations and individuals.

Valentine Furniss
12th August 2009

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