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Brent Pension Fund Sub-Committee

Tuesday, 23 February 2010 at 6.30 pm
Committee Room 4, Brent Town Hall, Forty Lane, Wembley, HA9 9HD

Membership:

Members Councillors:	first alternates Councillors:	Second alternates Councillors:
Crane (Chair)	Van Kalwala	John
HB Patel (Vice-Chair)	Baker	Mistry
Mrs Bacchus	Beswick	Butt
D Brown	Wharton	Castle
Detre	HM Patel	Colwill
Hashmi	Dunn	Bessong
CJ Patel	Pagnamenta	Green

Non Voting Co-opted Members

Fraser	GMBU
Patel	College of North West London

For further information contact: Joe Kwateng, Democratic Services Officer on 0208 937 1354, joe.kwatreng@brent.gov.uk

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The press and public are welcome to attend this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members on events in the quarter.

Anthony Bor and Doug Stewart (our new client Director replacing George Blunden) will attend for this item.

The report from AllianceBernstein and Henderson Global Investors have been produced separately and sent to members only. A spare set is available for inspection on request. For further information please contact the Democratic Services Officer.

9 Henderson Global Investors - Proposals to change UK Gilt Benchmark 41 - 44

This report examines the UK government gilt benchmark used by Henderson Global Investors (HGI).

10 European Witholding Tax - Appointment of KPMG 45 - 48

This report details work commissioned to reclaim additional European withholding tax from various states.

11 Any other urgent business

12 Date of next meeting

The dates of the meetings of the Brent pension Fund Sub-Committee for the municipal year 2010/11 will be confirmed at the Council Annual meeting in May 2010.

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

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 24 November 2009 at 6.30 pm

PRESENT: Councillor HB Patel (Vice Chair in the Chair) and Councillors HB Patel, Mrs Bacchus, Detre, Hashmi, CJ Patel and Fraser (non-voting co-opted member)

Apologies were received from: Councillors Crane, D Brown and Mr A Patel (non-voting co-opted member).

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

None at this meeting.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 24 September 2009 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations (if any)**

None.

5. **Report from Henderson Global Investors**

Mark Fulwood (MF), Kevin Adams (KA) and Roger Greville (RG) representatives from Henderson Global Investors attended the meeting for this item.

MF and KA informed the Sub-Committee that there had been a marked increase in market returns for the 3 and 12 month periods ending on September 2009. He continued that the main drivers were corporate bonds, secured loans and a slight fall in government bonds yields buoyed by government measures including quantitative easing and low interest rates. The portfolio has increased in value from £79.4m (30 June 2009) to £84.2m (30 September 2009). In assessing the outlook for fixed income markets, KA stated that short term interest rates were expected to remain low for a long period of time, but that longer terms rates may rise. He suggested the following options to protect the fund and improve returns;

- To change the gilt benchmark in the Core fund from Long dated gilts to All stocks, thereby decreasing the duration of the benchmark
- Allocate to currency strategy within the enhanced portfolio. MF and KA drew attention to Henderson's professional experience, strong focus on research and development which had led to an excellent outperformance of the benchmark and peers.

RG discussed the exposure to infrastructure within the Henderson Fund II. He stated that the strategy was to build a diversified portfolio of investments in Private Finance Initiative (PFI) concessions companies in the lower sectors of the market. With that in mind, the fund had acquired John Laing plc. However, difficult markets and a large pension fund deficit had reduced the value of the Brent holding. RG set out the objectives and key risks for 2010.

In the ensuing discussion the Director of Corporate Finance and Resources expressed concerns about Henderson's recovery plan based on PFI. RG reiterated his confidence in the prospects of the John Laing team adding that geographical and international diversification would enable the team to achieve the objectives.

MF, KA and RG were thanked for their presentation, and for the training session on benchmarks preceding the meeting.

6. **Actuarial Valuation 2010**

Ms Christine Rice a representative of Hewitt was present at the meeting to discuss the background to the prospective actuarial valuation. She outlined the difficulties facing the Fund – falling gilt yields (increasing the value of liabilities) and poor equity markets had combined to present a scenario of rising employer contribution rates. However, the option of taking a long term view that markets would recover, was available to the Sub-Committee. Ms Rice continued that whilst there would be risks to such an approach, it was likely that there would be action at national level to reduce future liabilities.

7. **Monitoring report on fund activity for the quarter ended 30 September 2009**

The Sub-Committee considered this report which provided a summary of fund activity during the quarter ended 30th September 2009. The report also examined the actions taken, the economic and market background, investment performance, as well as commented on events in the quarter.

The Head of Exchequer and investment informed the Sub-Committee that during the quarter public equity and credit markets rose sharply while private equity fell. He continued that the Fund had grown in value from £366m to £418m, and had outperformed its benchmark over the quarter (0.7%) mainly as a result of improved performance in global equities, GTAA, fixed interest and hedge funds. He added that the Fund had underperformed the average local authority fund (-2.7%) over the quarter as a result of lower exposure to equities. Over one year, the Fund had underperformed its benchmark (-4.1%) and the average fund (-8.5%) as a result of poor manager performance in global equities, fixed interest, currency and GTAA.

He then referred members to the options for change outlined by Henderson Global investors, including changing the core portfolio gilt benchmark and the extension of the discretion to use active currency investment to the satellite portfolio. He added that Henderson had hired a highly rated team from Fortis Bank which had improved returns. The Head of Exchequer and Investment expressed support for the options outlined by Henderson Global Investors (HGI).

Members discussed the options outlined by HGI but felt that in view of its current performance, it would be prudent to monitor HGI's performance and progress for the next quarter before considering changing the benchmark as requested in their presentation.

RESOLVED:

(i) that the decision to amend the benchmark for the core portfolio be deferred until the next meeting;
(ii) that HGI be authorised to use currency management in the satellite portfolio.
(iii) that the monitoring report be noted.

8. **Any other urgent business**

None.

9. **Date of next meeting**

The next meeting will take place on Tuesday 23 February 2010.

10. **Exclusion of Press and Public**

RESOLVED:-

That the press and public be excluded from the remainder of the meeting as the report to be considered contained a category of exempt information as specified in the Local Government Access to Information Act 1972, namely;

"3. Information relating to the personal and business affairs of any particular person (including the authority holding that information)".

11. **Review of the Independent Adviser**

The Sub-Committee considered this report which examined the work carried out by the Independent Adviser and alternative ways of providing the service. The Head of Exchequer and investment informed members that since his appointment in 2002 the Independent Adviser had been involved in a number of areas including reviews of asset allocation, new investments searches for new fund managers, regular quarterly meetings with fund managers and regular reports to members of the Sub-Committee. He added that the feedback from members on the Independent Adviser's performance had been positive. MS outlined the alternatives options available to members.

RESOLVED:-

that the reappointment of the existing Independent Adviser be agreed.

The meeting closed at 8.50 pm

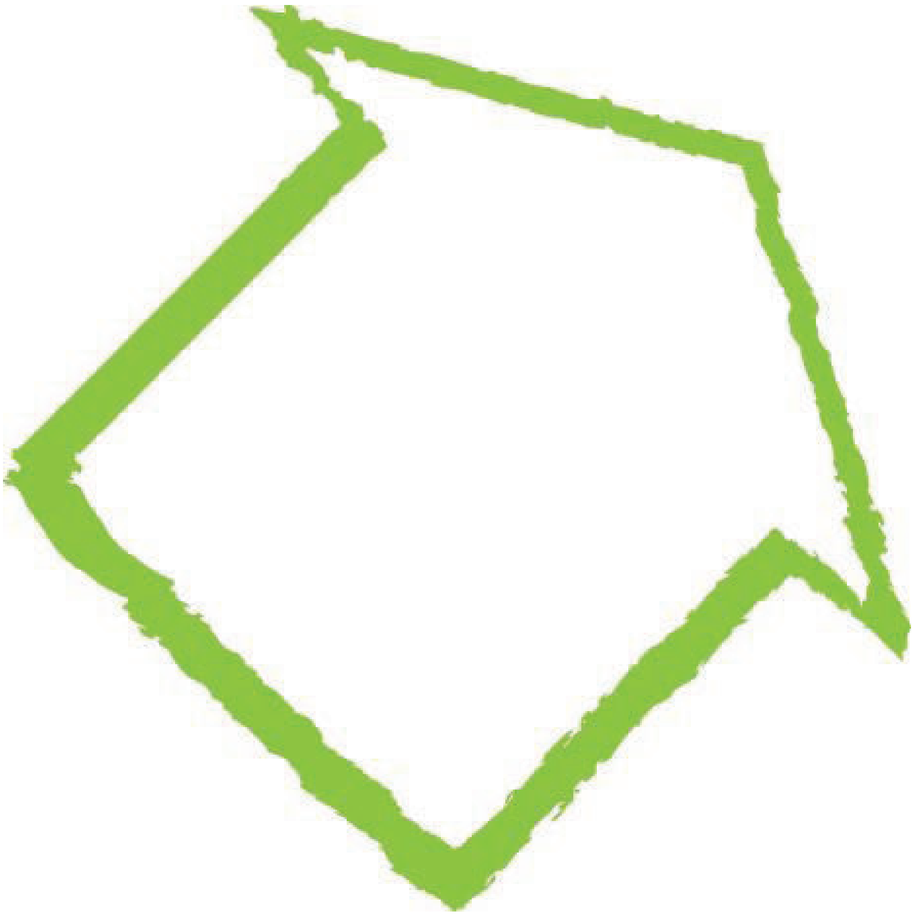
H B PATEL
Vice Chair (in the chair)

Pension Fund Opinion Plan

Brent Pension Fund

Audit 2009/2010

February 2010



Contents

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. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Introduction

1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements 2009/10 for Brent Council's Pension Fund accounts. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:

- current national risks relevant to your local circumstances; and
- your local risks and improvement priorities.

2 I will discuss and agree this plan, and any reports arising from the audit, with the Pension Fund Sub Committee. However, as the pension fund accounts remain part of the financial statements of Brent Council as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

3 The audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

6 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

7 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

Fee for the audit of financial statements

8 The fee for the audit is £38,475, as indicated in my letter of 23 April 2009.

In setting the fee, we have assumed that the general level of risk in relation to the audit of the pension fund accounts will not be significantly different from that identified when planning the 2008/09 audit.

9 If I need to make significant amendments to the risk assessment, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and then we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Brent Pension Fund could take to reduce its audit fees

11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that Brent Pension Fund could take and to provide ongoing audit support.

Auditors report on the financial statements

12 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

13 I am required to issue an audit report giving my opinion on whether the pension fund financial statements presents fairly the financial position of Brent Pension Fund as at 31 March 2010 and its income and expenditure for the year then ended.

14 I am also required to review the pension fund annual report, which is required to be produced under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Identifying opinion audit risks

15 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing Brent Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of Brent Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within Brent Pension Fund information systems.

Identification of specific risks

16 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific risks

Specific opinion risks identified

Risk area	Assertions	Audit response
Unquoted Investments The valuation of unquoted investments is potentially a very complex area. There are risks around accurate valuation at year end.	Disclosure Valuation & allocation	We will review the processes for the valuation of investments and the accounting treatment and disclosure to determine if investments are recorded at appropriate valuations at the year end.
Investment Commitments The Pension Fund accounts are required to disclose the value of outstanding investment commitments. There are risks regarding the completeness of the disclosures in the accounts.	Disclosure Completeness	We will review the final accounts against disclosures required by the Pension Statement of Recommended Practice (SORP). We will review arrangements implemented by the Council, and sample test fund manager reports to ensure all investment commitments are disclosed.
Statement of Recommended Practice (SoRP) The Pension Fund accounts are required to be fully compliant with the SoRP.	Disclosure	We will share the SORP disclosure checklist with the Authority to assist in preparation of the accounts. We will review compliance against the SORP, once the final accounts have been produced.

Testing strategy

17 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

18 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). However, the final levels of substantive testing can only be made once accounts have been presented for audit.

19 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early:

- Investigating the possibility of adopting a controls-based approach in respect of contributions received, benefits paid and/or transfers in and out to reduce the extent of substantive testing at the final accounts stage of the audit. If this approach is not feasible, we will perform some early substantive testing of transfers in and out; and
- Request direct confirmation of investments and investment audit reports (AAF/001s and/or SAS70s) from fund managers and the custodian.

Where other early testing is identified as being possible this will be discussed with officers.

20 Wherever possible we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2010/11, we will discuss with Internal Audit their audit plan to enable the identification of areas of work on which we may place reliance in the future.

Key milestones and deadlines

21 Brent Pension Fund is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2. We have provided indicative dates, and will agree these with the Director of Finance before the commencement of the interim audit.

22 We will agree with you a schedule of working papers required to support the entries in the financial statements.

23 We will meet with the key contact and review the status of all queries while on site. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	June 2010
Forwarding audit working papers to the auditor	June 2010
Start of detailed testing	July 2010
Progress meetings	Weekly during on site fieldwork
Present report to those charged with governance at the Audit committee	September 2010
Issue opinion	By 30 September 2010

The audit team

24 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Andrea White District Auditor	a-white@audit-commission.gov.uk 0844 798 5784	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Paul Viljoen Audit Manager	p-viljoen@audit-commission.gov.uk 0844 798 2688	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and the Head of Pensions.
Rehana Ebrahim Principal Auditor	r-ebrahim@audit-commission.gov.uk	Responsible for managing the on site audit work on a daily basis. Key point of contact for the Finance Manager.

Independence and objectivity

25 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.

26 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

27 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

28 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the London Head of Operations, Les Kidner (l-kidner@audit-commission.gov.uk).

29 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

30 Reports will be discussed and agreed with the appropriate officers before being issued to the Pensions Committee.

Table 4 Planned outputs

Planned output	Indicative date
Opinion audit plan	January 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Annual Audit Letter	November 2010

Appendix 1 – Basis for fee

1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:

- our cumulative knowledge of Brent pension Fund;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Brent Pension Fund officers; and
- liaison with Internal Audit.

Assumptions

3 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit have assessed the appropriateness of management response to external audit recommendations in relation to the 2008/09 financial statements audit;
- good quality working papers and records will be provided to support the financial statements together with delivery of draft financial statements;
- requested information will be provided within an agreed protocol and timescale framework;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised

4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the [Pension Fund Committee]. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee;
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Director of Finance	Audit Manager (AM) and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Head of Pensions	AM and TL	Quarterly	Update on audit issues
Pension Fund Committee	District Auditor (DA) and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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For further information on the work of the Commission please contact:

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Tel: 0844 798 1212, Fax: 0844 798 2945, Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

	Pension Fund Sub Committee 23rd February 2010 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL
Report Title:	**Monitoring report on fund activity for the quarter ended 31st December 2009**

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 31st December 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) Equity and credit markets rose during the quarter. Equity markets fell during January.

b) The Fund has grown in value from £418m to £431m, and has outperformed its benchmark over the quarter (0.4%) mainly as a result of improved performance in equities, fixed interest and hedge funds. The Fund underperformed the average local authority fund (-0.1%), as a result of lower exposure to equities. Over one year, the Fund has underperformed its benchmark (-1.1%) mainly as a result of poor returns in private equity offset by good stock selection, and underperformed the average fund (-2.1%) as a result of lower exposure to equities.

2. RECOMMENDATIONS

Members are asked to note this report.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 31ST DECEMBER 2009

3.1 All equity markets, rose during the quarter following the end of the the recession. The UK rose by 5%, USA 5%, Germany 2%, HongKong 4% and Japan by 4%, but the emerging markets 'led the charge – Russia 14%, Brazil 11% and China 18%. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates rose during the quarter. Credit markets have improved – LIBOR and LIBID have moved closer to bank rate. The Quantitative Easing programme is to continue until February 2010, but at a reduced rate.

- Headline inflation (RPI) rose by 2.4% in the year to December (-1.4% September), and the Index of Consumer Prices (CPI) rose by 2.9% (1.1% September), as the fall out of the VAT reduction and rising fuel costs increased inflationary pressures. The re-introduction of VAT at 17.5% may increase the rate to around 3.5% in January before inflation falls in the first half of 2010 as spare capacity and low pay increases bear down on prices..
- Average earnings growth (including bonuses) was 1.9% p.a. in November (1.6% August), well below the Bank of England's 'danger level' (4.5%). Unemployment has begun to fall, but the number of full time jobs has fallen, and the overall number of unemployed may rise as the government cuts public expenditure.
- The UK economy has been in recession (GDP falling by 4.8% in 2009), but grew by 0.1% in Q4 2009 and is expected to grow by 1% / 2% in 2010 (and 1.5% in 2011).
- It has been anticipated that consumer spending will fall, though retail sales were up 3.1% in the year to November. 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 risen over one year (3.6%). Mortgage approvals are only 60% of their level two years ago. Capital Economics still expects house prices to fall by a further 10% / 15%.

In summary,the recession may have ended but interest rates are expected to remain low. The government is using both fiscal and monetary policy to combat the downturn. The recovery is expected to be slow with occasional setbacks, 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 decline by around -2.5% in 2009, though the economy has grown 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 rising unemployment (10.2%) 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 3% in 2010 (but only 1.5% in 2011). 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 -4% in 2009 and only grow by 1.5% in 2010. Growth in China and India will be around 9% and 8% respectively in 2009, but accelerate in 2010 to around 10% and 8% respectively. The world economy is expected to shrink by -3% in 2009, grow by 4% in 2010, but only expand by 2% in 2011.

3.3 A paper on market events and future prospects, written by the Independent Adviser, is attached.

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 31st December 2009 compared to the Benchmark

Market (1)	Market Value 30.09.09 £M (2)	Market Value 30.09.09 % (3)	WM LA Average 30.09.09 % (4)	Fund Benchmark 30.09.09 % (5)	Market Value 31.12.09 £M (6)	Market Value 31.12.09 % (7)	WM LA Average 31.12.09 % (8)
Fixed Interest							
UK Gilts	17.6	4.2	9.9	4.5	15.7	3.6	10.2
Corp.Bonds	24.3	5.8	*	4.5	23.0	5.5	*
IL Gilts	-	-	5.4	-	-	-	5.3
Overseas	-	-	2.6	-	-	-	2.6
Emerg. Market	3.3	0.8	-	-	4.3	1.0	-
Infrastructure	0.7	0.2	-	0.5	0.7	0.2	-
Secured loans	19.7	4.7	-	5.5	17.4	4.0	-
Credit Opps.	12.7	3.0	-	2	13.1	3.0	-
Credit Alpha	5.6	1.3	-	1	7.9	1.8	-
Equities							
UK FTSE350	114.8	27.5	33.6	18.5	115.1	26.7	33.6
UK Smaller co's	15.5	3.8	*	4.0	15.2	3.5	*
Overseas	94.5	22.7	33.6	26.5	103.2	24.0	33.3
USA	41.8	10.0	9.8	-	45.8	11.1	9.3
Europe	28.6	6.9	9.9	-	28.5	6.2	9.0
Japan	4.0	1.0	3.8	-	4.7	1.1	3.8
Pacific	8.6	2.1	4.2	-	10.1	3.6	3.7
Other	11.5	2.7	5.9	-	14.1	1.9	6.1
Other							
Property – UK	18.0	4.1	5.3	8.0	19.2	4.4	5.6
Property – Eu.	7.4	1.8	*	*	6.8	1.6	*
Hedge funds	40.7	9.8	1.1	10.0	41.3	9.5	1.6
Private Equity	26.8	6.4	3.0	8.0	33.7	7.9	2.4
GTAA	10.1	2.4	-	4.0	10.5	2.4	*
Infrastructure	5.4	1.3		2.0	5.0	1.2	*
Cash	0.5	0.2	4.2	1.0	-1.0	-0.3	4.1
Total	**417.6**	**100.0**	**100.0**	**100.0**	**430.9**	**100.0**	**100.0**

3.5 The main changes have occurred as a result of market movements and increased exposure to private equity. During the quarter, £7.6m was invested in private equity and £0.5m in UK property. It has been agreed that £0.75m should be returned from the fixed interest portfolio each month (until March), and £1.25m per month invested in global equities. Since the end of the quarter there has also been further investment in private equity (£1.1m) and infrastructure (£0.6m), and sales of UK equities (£5.2m). The Fund is currently overweight in UK equities and underweight in overseas equities and property, but steps are being taken to correct these imbalances.

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 31st December 2009.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31.12.09			Year Ended 31.12.09			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
UK Equities			4.9			29.7	
UK Equities	6.0	5.7		31.5	29.7		FTSE 350
UK Small Caps	-2.4	-7.7		61.9	57.7		FTSE Smallcap ex IT
Global Equities	4.7	4.5	3.9	28.0	28.2	26.4	FTSE World 75% Hedge
North America	3.6	5.6	5.2	11.2	23.9	17.1	FTSE USA
Europe	0.9	2.7	1.8	28.6	30.0	20.5	FTSE Eu Ex UK
UK	2.0	5.7	4.9	17.3	30.4	29.7	FTSE All Share
Japan	6.2	-0.9	-3.2	16.4	4.5	-4.4	FTSE Japan
Pacific (ex Jap)	0.4	5.0	4.6	61.5	59.2	48.8	FTSE Pac. Ex Jap
Emerging	15.0	6.1	7.2	71.0	27.6	54.3	FTSE World (Other)
Fixed Interest							
Total Bonds	1.0	-0.5	0.3	15.5	3.6	7.6	Brent benchmark
UK Bonds	-1.8	-2.0	-0.2	0.5	-1.2	8.3	FTSE UK over 15 years
Index Linked UK	-	-	1.4	-	-	6.9	-
Corp Bonds	0.0	0.5	-	11.6	10.8	-	iBoxx Sterling Non-gilt
Secured Loans	5.2	0.9		52.0	4.7		3 month LIBOR +3%
Credit Opportunities fund	2.6	1.4		28.4	5.7		3 month LIBOR+5%
Other							
UK Property FOF	10.1	9.4	6.5	-	2.2	-5.3	IPD Pooled index
Eu Property FOF	-7.7	9.4		-	2.2		IPD All properties
Hedge Funds	1.4	1.1	1.9	13.3	5.1	8.3	3 month LIBID+4%
Private equity	-0.2	0.1	1.1	-21.3	1.2	-15.5	LIBID 7 Day
Infrastructure	-1.4	1.1	-	-	-	-	3 Month LIBID +4%
GTAA	3.9	6.2		57.9	27.3		FTSE 100
Cash	-0.5	0.1	0.2	n/a	2.4	0.9	GPB 7 DAY LIBID
Total	**3.2**	**3.1**	**3.3**	**15.6**	**16.7**	**17.7**	

3.7 Details of individual managers' performance tables are attached in Table 3, which shows three month, one year and longer-term information. Returns for the quarter were positive, outperforming the benchmark by 0.4%. The main stock selection factors were:-

a) UK small companies. The fund outperformed as the manager overweighted smaller AIM stocks that did not fall in value as rapidly as their larger FTSE counterparts.

b) Fixed interest. Once again there was outperformance in government and corporate bonds as the manager overweighted fast recovering corporate bonds. Secured loans and the Credit Opportunities Fund also recovered in improving credit markets. The manager has reweighted the fund to increase exposure to the Credit Opportunities and Credit Alpha funds, to take profits in secured loans, and to increase the weighting in the core fund.

c) Hedge fund of funds outperformed as multiple strategy and equity related strategies continued to be successful.

d) GTAA. The manager underperformed as previously successful strategies lost value. In particular, the short on Japanese bonds and the long on the Japanese yen reduced returns.

e) Global equities outperformed the benchmark as stock selection, particularly in the 'value' portfolio', and currency added value.

f) Property. The UK fund of funds underperformed as a result of additional cash holdings and the reticence of some funds to resume paying dividends.

3.8 Over one year, the Fund underperformed the benchmark by 1.1%. Asset allocation – lower exposure to UK Small companies, higher exposure to bonds - has been negative. The main stock selection factors were that private equity underperformed sharply, but that other stock selection was positive – equities, bonds, GTAA and hedge funds.

3.9 The relative underperformance of the Brent fund against the WM Local Authority average in Q4 arises as a result of the asset allocation followed by the Brent Fund (lower exposure to equities), offset in part by gains in stock selection and exposure to secured loans and credit.

3.10 The Brent fund has underperformed the average local authority fund by 2.1% over one year, mainly because it has had a lower exposure to equities (higher exposure to alternatives) in a period when equities have performed very strongly.

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

3.11 There has been some purchases and sales during this quarter to invest dividends (£0.7m) improve tracking error, rebalance the Fund towards global equities, and invest in private equity .

<u>Purchases</u>

a) Took up rights issues.

<u>Sales</u>

a) Sold stocks to ensure more accurate index tracking or as they left the index (such as Mouchel and Headlam Group).

b) Sold stocks to fund investment elsewhere.

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 January included selling stocks (£5.2m) to fund increased exposure to global equities and private equity.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Equity markets have fallen marginally during January following the sharp rise since March. UK gilts have also lost value as markets anticipate rising interest rates to fund the government deficit and to control inflation.

3.14 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 – December 2009 quarter report.

Henderson Investors – December 2009 quarter report

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.

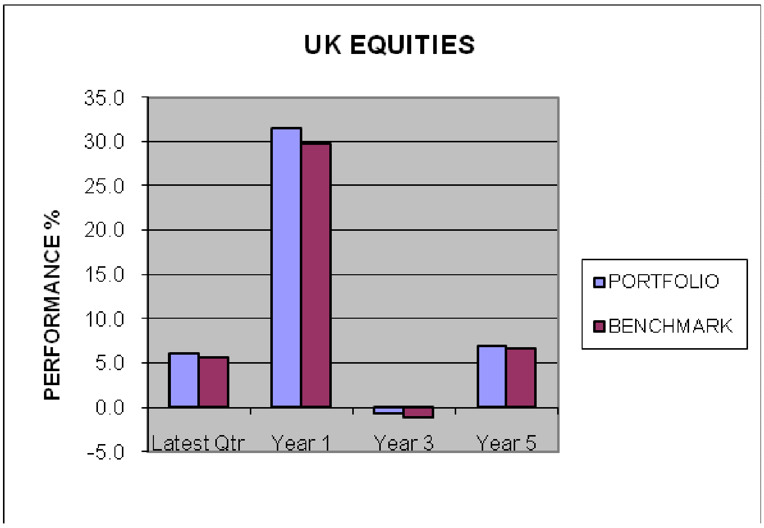
DUNCAN McLEOD
Director of Finance & CR

MARTIN SPRIGGS
Head of Exchequer and Investment

PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 31st December 2009

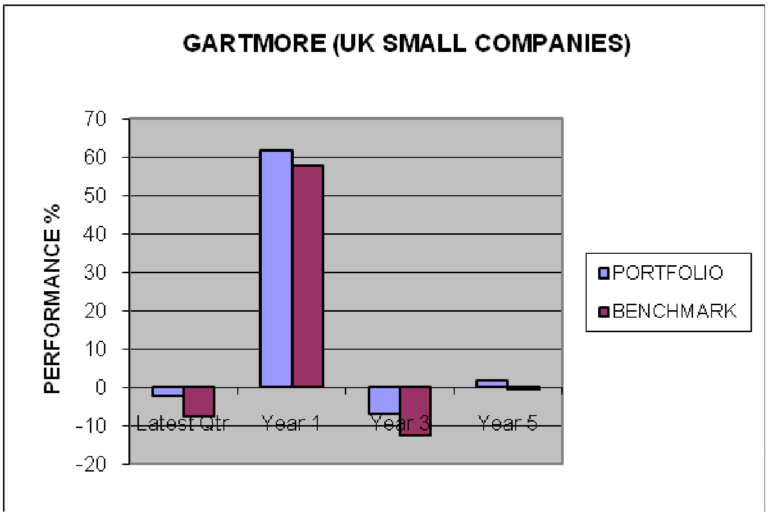
UK EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	6.0	5.7
Year 1	31.5	29.7
Year 3	-0.7	-1.1
Year 5	7.0	6.6



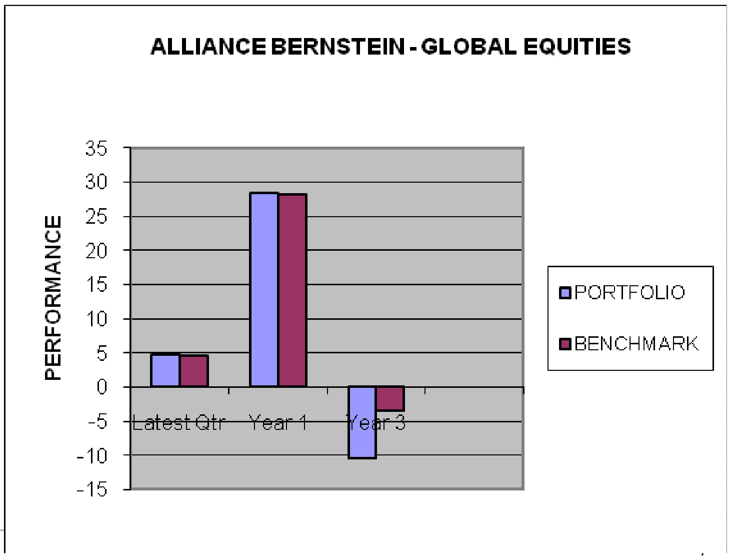
GARTMORE (UK SMALL COMPANIES)

	PORTFOLIO	BENCHMARK
Latest Qtr	-2.4	-7.7
Year 1	61.9	57.7
Year 3	-6.9	-12.5
Year 5	1.6	-0.5



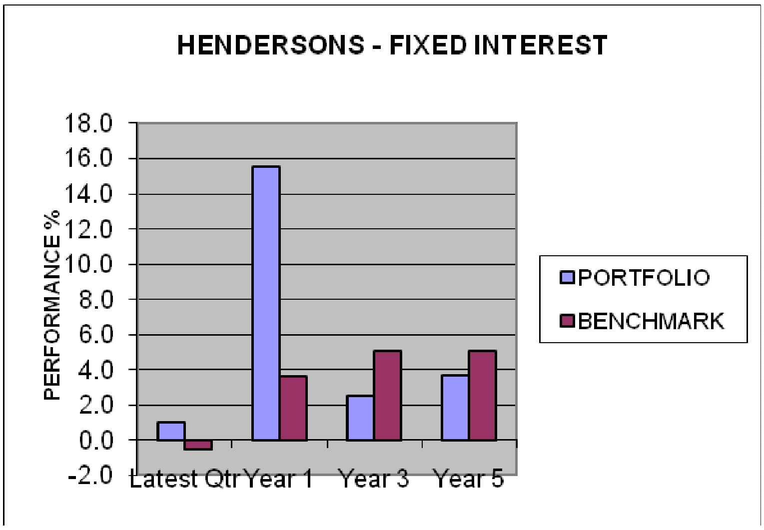
ALLIANCE BERNSTEIN - GLOBAL EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	4.8	4.5
Year 1	28.3	28.2
Year 3	-10.4	-3.4



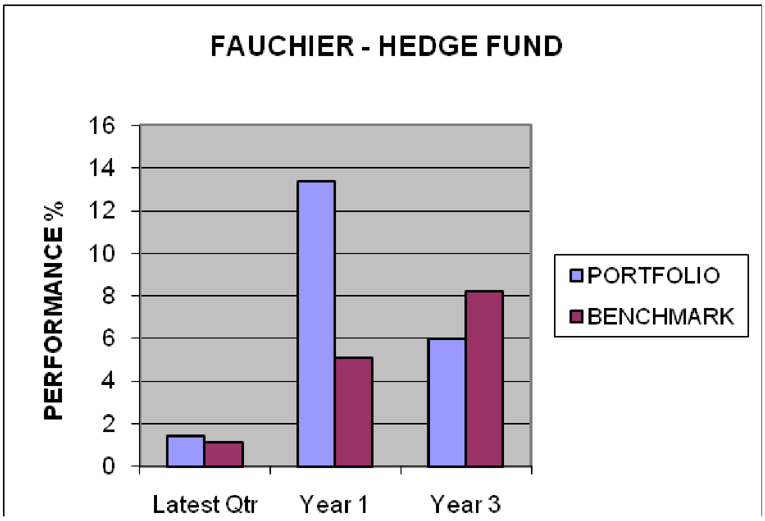
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	1.0	-0.5
Year 1	15.5	3.6
Year 3	2.5	5.1
Year 5	3.7	5.1



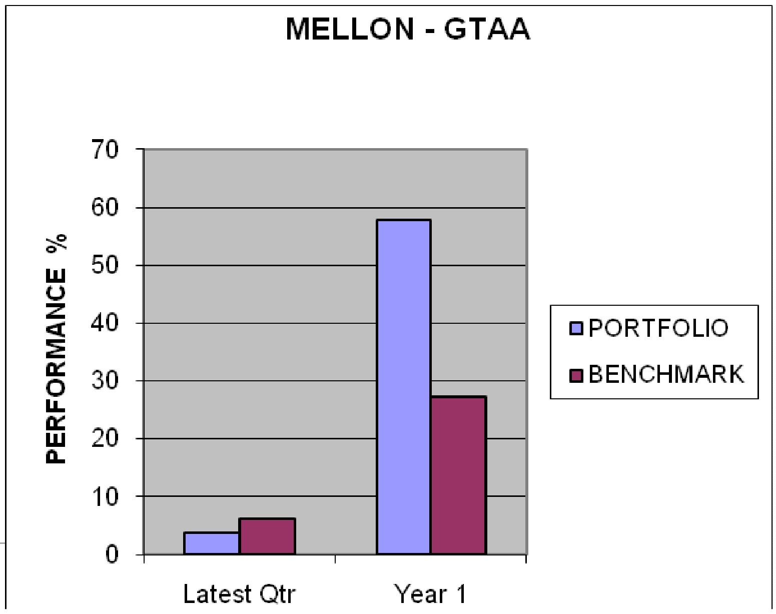
FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	1.4	1.1
Year 1	13.4	5.1
Year 3	6.0	8.2



MELLON - GTAA

	PORTFOLIO	BENCHMARK
Latest Qtr	3.9	6.2
Year 1	57.9	27.3



Report from the Independent Adviser

Investment Report for the Quarter ended 31st December 2009

Market Commentary

The index returns and currency movements both for the quarter and year ended 31st December 2009 are shown in the tables below.

Index returns expressed in sterling

		Q/e 31.12.09
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	7.5
UK	FTSE All Share	5.5
North America	FTSE North America	4.8
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	4.1
Europe	FTSE Developed Europe (ex UK)	0.5
Japan	FTSE Developed Japan	-4.0
Fixed Interest		
UK ILGs	FTSE British Government IL Over 5 years	1.5
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	0.1
UK Gilts	FTSE British Government All Stocks	-2.0
Property	IDP	N/A
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency Movements for quarter ended 31st December 2009

Currency	30th September 2009	31st December 2009	Change %
USD/GBP	1.599	1.615	+0.1
EUR/GBP	1.094	1.126	+2.9
USD/EUR	1.462	1.435	-1.8
Yen/USD	89.535	93.095	+4.0

Index returns expressed in sterling

		Year ended 31.12.09
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	59.4
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	51.2
UK	FTSE All Share	30.1
Europe	FTSE Developed Europe (ex UK)	19.9
North America	FTSE North America	14.8
Japan	FTSE Developed Japan	-5.8
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	10.7
UK ILGs	FTSE British Government IL Over 5 years	5.6
UK Gilts	FTSE British Government All Stocks	-1.2
Property	IDP	N/A
Cash	Merrill Lynch LIBOR 3 Month	1.7

Currency Movements for year ended 31st December 2009

Currency	31st December 2008	31st December 2009	Change %
USD/GBP	1.438	1.615	+12.3
EUR/GBP	1.034	1.126	+8.8
USD/EUR	1.390	1.435	+3.2
Yen/USD	90.650	93.095	+2.7

At the start of 2009 who could have envisaged the extremely robust returns shown in the table above for the year ended 31st December 2009, In particular, the rise of 30.1% in the FTSE All share Index? This rise is all the more remarkable as it represents an increase of 54.0% from the 3rd March low point. At the head of the leader board for 2009 was the emerging markets sector (+59.4%) as investors came to recognise the stronger rates of GDP growth in those regions compared with the nations of the Western Hemisphere. This perception was also behind the 51.2% returns from Asia. The back marker by far was Japan showing the only negative return in the table of -5.8%. It has become increasingly evident that Japan is mired in deflation and likely to remain so for quite some time despite the election of the Democratic Party. The other principal feature of the return table from a UK point of view was the rise of the pound against the US dollar of 12.3%, and against the Euro at 8.8%. This strength was a surprise given the rapidly deteriorating British economy as epitomised by the enormous fiscal deficit, but it reflected a recovery from an oversold position in 2008 when the pound declined by 27.3% against the dollar and 24% against the euro.

Within the fixed interest sector corporate bonds were a clear winner advancing 10.7%, with investors attracted by the high yields thereon. Index linked advanced by 5.6% as investors sought some protection from inflation. Government gilts, on the other hand, returned a negative 1.2% due to the rapidly worsening state of the British economy.

With regard to the market returns for the final quarter of 2009, these were very resilient considering the volatile background and the activities of governments and central banks who were in the complex process of steering their economies out of recession and back to growth. Some countries were starting the process of dismantling their emergency measures which had proved so vital in the previous two years. Other countries, particularly in the Eastern Hemisphere and Emerging Markets, did not have to face these problems as their economies were sufficiently robust i.e. China and India. This is reflected in the above table. The UK returned a heartening 5.5% despite its undoubted problems, but this was really because its market had been oversold in the first quarter of the year. The European return of only 0.5% was unexpectedly low whilst the negative return of 4.0% from Japan was no surprise in view of the nation's continuing deflation troubles and the rudderless new Democratic government. Fixed interest returns were disappointing especially gilts (-2.0%). Index linked gilts continued to hold their own, up 1.5%. Corporate bonds marked time having been very strong earlier in the year.

UK

Positive Influences

- In the 3 months to October unemployment advanced by 21,000 to 2.49M which was better than generally expected

- The British Retail Consortium reported that December retail sales returns were +6.0% p.a. demonstrating increased consumer confidence.
- Chancellor Darling promised to halve the UK's deficit by 2014.
- The Bank of England estimates that GDP will grow by 2.2% in 2010 which is appreciably higher than the Treasury's estimate or the economists' consensus. For 2011 the Bank estimates a 4.1% increase.
- The FT house price index advanced by 0.7% in October to levels last seen in September 2006.
- The manufacturing activity index increased to 53.7 in October (September 49.9).

Negative Influences

- The last decade recorded the lowest rate of economic growth for the post war period with GDP averaging 1.7% p.a.
- The Confederation of British Industry (CBI) expects the UK to face a "slow anaemic recovery". It estimates GDP increases of 1.2% for 2010 and 2.5% for 2011. It adds "there is no sign of a clear driver of strong economic growth". The CBI is very critical of government plans to tackle the £178B deficit saying "the government has not yet set out a credible pathway back to financial stability".
- The Office for National Statistics recorded that in November retail sales returns receded by 0.3%, but were up by 3.1% year on year.
- It is becoming increasingly questionable that London will be able to maintain its status as the world's principal financial centre.
- The UK is the only G20 country still officially in recession.
- The third quarter estimate of GDP growth was marginally revised to -0.3% from -0.4%; appreciably below consensus economists' estimates.
- CPI in October rose by 1.5% p.a. (September +1.1% p.a.) due to volatile petrol prices.
- Public debt grew by a substantial £11.4B in October amd £84.7B for the first 7 months of the fiscal year 2009, equating to the total level for the previous year.
- Mervyn King, the governor of the Bank of England, stated "the UK is facing a prolonged period of balance sheet adjustment".
- The leading rating agency Fitch says the UK is at greater risk of losing its sovereign debt AAA credit rating than any other major economy.
- The National Institute of Economic and Social Research said that, in the quarter ended 31st October, the economy shrank by 0.4%.
- On 5th November, the Bank of England injected a further £25B into the economy via its quantitative easing programme bringing the total to £200B. Quantitative easing is printing money by any other name and highly likely to result in increased inflation.
- In his pre-budget report Chancellor Darling was expected to clearly state how the Government was going to tackle the massive and rapidly growing budget deficit. Disappointingly, the necessary radical action appears to have been postponed until after the forthcoming election. However, the Chancellor did indicate that taxes on middle income earners would rise and that national insurance would increase. He also announced a 50% supertax on bonus payments by banks. The reality is that there can be no short term wonder cure. To reduce the deficit and recessionary forces will take several years as markedly increased taxes and

severe cutbacks in spending grind through the economic system. In his report the Chancellor made the following forecasts of GDP growth:-

2010/11	1 to 1 ½%
2011/12	3.5%
2012/13	3.5%

The Chancellor also forecast that government borrowing would halve over the next four years.

USA

Positive Influences

- The Conference Board's index of consumer confidence increased to 52.9 in December (November 50.6).
- Canada's third quarter rate of GDP increased by 0.4% boosted by strong domestic spending.
- October retail sales increased by 1.4% thanks to a rebound in car sales.
- As a demonstration of his long term faith in the American economy Warren Buffett announced a takeover of the Burlington Northern & Santa Fe Railway, one of the largest US railroad operators.
- The Institute for Supply Management's non manufacturing index grew to 50.1 in December from 48.7 in November. The Institute's manufacturing index rose to 55.9 in December, its highest level since April 2006.

Negative Influences

- New jobs fell by 85,000 in December versus a generally expected small rise. The unemployment rate was unchanged at 10.0%, and could peak at 10.5%. For as long as unemployment remains high and the housing market continues in a weak state this is likely to stay the hand of the FED in tightening interest rates.
- Housing starts dipped by 10.6% in October. The Commerce Department reported that new home sales in November slumped by 11.3% versus an expected rise. At the end of the third quarter 1 in 7 borrowers were behind on their mortgage payments or facing foreclosure.
- Ben Bernanke at the Federal Reserve Board stated "though we have begun to see some improvement in economic activity we still have some way to go before we can be assured that the recovery will be self sustaining".
- Durable goods orders in October decreased by 0.6%.
- The third quarter estimate of GDP was revised down to 2.8%.
- The Commerce Department stated that construction spending fell for the seventh consecutive month in November, to the lowest level in 6 years.

Europe

Positive Influences

- The European Central Bank gave notice that it intends to start the process of unwinding its emergency financial support measures.

- German production levels rose by 3.5% in Q3. This was the strongest quarterly rise since the reunification of West and East Germany. German industrial orders increased by 0.2% in November (October -1.9%), less than expected.
- Rises in third quarter GDP were as follows:-

	%	
Eurozone	+0.4	(against a contraction in the previous 5 quarters)
Germany	+0.7	
Italy	+0.6	
France	+0.3	

- The European Commission's economic sentiment indicator increased for the ninth consecutive month jumping in December by 2.5 to 91.3 for the Eurozone countries, the highest level since September 2008.

<u>Negative Influences</u>

- Eurozone unemployment in November advanced to 10.0%, the highest for 10 years.
- Eurostat reported that Eurozone retail sales fell 1.2% in November.
- The Greek prime minister Papandreou admits the country suffers from "systemic corruption". Greek sovereign debt was downgraded to BBB by Fitch.
- German inflation in November increased by +0.4% (October -0.1%).

<u>Japan</u>

<u>Positive Influences</u>

- The Bank of Japan reported that exports rose 0.6% in November, the eighth consecutive monthly rise. This was directly attributable to strong demand for Japanese goods from Asia.
- The Bank of Japan vowed that it would "not tolerate deflation" signalling that it would continue to keep interest rates low. On 1st December the Bank of Japan injected a further $114B of liquidity into the banking system.
- The government announced that its estimate of GDP growth in the third quarter rose by a much stronger 4.8% p.a. rate than expected. Two thirds of this rise was attributed to the powerful expansion in domestic demand.
- Haoto Kan, Japan's new finance minister, stated that he favoured a weaker Yen policy in order to boost exporting companies.

<u>Negative Influences</u>

- Yukio Hatoyama of the Democratic Party, the newly elected prime minister has appeared to struggle in his first 100 days in office.

<u>Asia/Pacific</u>

<u>Positive Influences</u>

- The purchasing managers' index in China for December was 56.1 (November 55.7) whilst that of India was 55.6 against 53.0 for the same periods.

- Chinese exports grew by a substantial 17.7% in December which was much higher than expected. Exports to the US rose 15.9% whilst those to the European Union were up 10.2%.

Negative Influences

- On 1st December the Reserve Bank of Australia increased interest rates by ¼% to 3 ¾ %.
- China's inflation rate for November grew by 0.6% (0.1% October).
- Dubai World, a state holding company for property development, suspended repayments on a $3.5B bond due in mid December. It announced an emergency restructuring programme and requested a debt stand still. This caused concern for a domino effect within Dubai together with a run on the banks there and contagion in other heavily indebted countries. Within days Abu Dhabi, the financial powerhouse of the United Arab Emirates, came to the rescue, but it imposed severe conditional terms. It is quite clear that the whole of Dubai is under a severe financial cloud which is unlikely to lift for quite some time, calling into question of the viability of the many property developments there sated, with very high levels of bloated debt. Dubai's ruler, Sheikh Mohammed Bin Rashid Al-Maktoum has much to do to restore his reputation.
  Singapore's fourth quarter GDP rate was markedly lower at -7.0% (quarter 3 +15.0%).

Conclusion

As usual, particularly at the start of a year, in order to predict the likely course of markets and asset classes it is necessary to attach an appropriate weight to all the various enhancing and detracting factors which effect an appropriate investment strategy. Taking a view to the end of 2010, the principal influential factors are as follows:-

Detracting:-

- The difficulty for governments and central banks in executing an efficient exit programme to dismantle the raft of emergency measures which were enacted over the last two years as a result of the global financial crisis. This will be particularly relevant for the UK and USA.
- The likelihood that inflation will pick up as economies begin to recover from recession and negative rates of GDP growth.
- Several European countries have vast fiscal deficits namely Greece, Ireland, Portugal and UK. In these cases the rating agencies are likely to down grade the ratings of the respective countries' sovereign debt. If the UK was to lose its triple AAA sovereign rating then interest rates may rise in order to attract overseas purchases at gilt auctions. This could also cause further sterling weakness.

Enhancing:-

- Many institutional and private investors overreacted early in 2009 as they attempted to de-risk their portfolios in the light of the most worrisome economic outlook and the appalling conditions in the international financial arena. Now it is clear that Armageddon has been avoided and that most economies are in the course of recovery, albeit anaemically in some cases, then investors with still considerable levels of cash are likely to invest back into the equity markets, particularly in the more defensive and safer stocks. Indeed, there is still good long term value to be found in these types of stocks.

- Many corporations perceived to be "defensive" are reporting better than expected earnings and, due to past conservative policies, are able to make worthwhile dividend increases.
- There is little doubt that the economies of emerging markets are most clearly outperforming the economic growth of the traditional industrialised countries. For this reason institutional investors have been increasingly prepared to invest in such areas. It is interesting to note that over the last decade the BRIC (Brazil, Russia, India & China) stock markets have been the strongest global performers by a large margin.
- As countries, particularly those in the Western Hemisphere, begin to recover from recession then it is quite possible that central banks will increase interest rates from the historically low levels which they currently stand namely:-

	%
Bank of England	0.50
European Central Bank	1.0
Swiss National Bank	0 – 0.75
Federal Reserve Board	0 – 0.25
Bank of Japan	0.10

If interest rates rise then it runs the risk of impacting consumer spending, raising mortgage rates and, for corporations, increasing the rates at which they borrow in the corporate bond market in order to maintain necessary levels of capital expenditure and spending on research and development.

- The UK economy in particular will suffer from the increase in VAT in January, rising unemployment and flat or lower wage levels. These three items will be harmful to retail spending.
- On the political front, President Obama has come tolerably well through his honeymoon year, considering the plethora of difficulties that he inherited from the Bush regime. In Germany, Angela Merkel received a stronger mandate for her chancellorship and appears to be coping well. In Japan, the recently elected Democratic Party are struggling under the weight of many years of ineptitude and weak policies inherited from the old Liberal Democratic Party. However, in political terms, the most worrying country by far is the UK where the economy is in extremely poor shape under the £178B deficit. With a general election due, probably in May, there will now be five months of the usual political wrangling and point scoring. Nevertheless, at the end of this time most commentators seem to agree that we have reached one of those points in history when the electorate simply wants a change. It therefore seems highly likely that a Conservative government will be returned. It remains to be seen whether it will be a majority government, or a "hung parliament" which would not be well received either by the stock markets or the currency markets.

So, what is the net effect likely to be both for stock markets and asset classes? The general perception would seem to be that equity markets have recovered a long way from plumbing the depths of despair in March. It seems likely that there could now be a pause in the markets' momentum in order to assess whether respective nations are making genuine progress in a return to normality and laying the ground for worthwhile rates of GDP growth later in 2010. It will also be important to see the extent to which asset classes are being re-hydrated. In that regard it does seem that, due to better liquidity, private equity, property, hedge funds and infrastructure will be able to return to growth and, importantly take advantage of the large number of attractive valuations in their respective spheres of operation. Better levels of liquidity should also result in more mergers and acquisitions together with an increased number of initial public offerings. Fixed interest as an asset class finds itself in a difficult situation. Gilt edged could suffer further if interest rates rise and sterling depreciates. Corporate bonds have been the sector's best performers, but here again, if interest rates rise, their returns to an investor may flatten. However, index linked stocks could stand to benefit if inflation rates were to rise.

In sum, in the first half of 2010, equities may mark time, but later in the year if there is a general global economic improvement, equities could achieve an annual return in, say, the high single figure vicinity. However, as mentioned, in the BRIC/emerging markets area returns could be more worthwhile. It is disappointing to conclude that the UK equity market could prove to be one of 2010's back markers due to the state of the economy and the country's finances which will take the government, of whatever political persuasion many years to sort. Do not expect equity returns to be as strong as those of 2009.

Valentine Furniss
12th January 2010

Investment Report for the month of January 2010

After the robust recovery of equity returns both for 2009 as a whole and also for the final quarter of that year it is scarcely surprising that in January 2010 there should be a pause whilst market strategists and economists sought to assess the future course of markets both in the short term and for the year as a whole. In that regard of increasing concern has been both the extent and size of record breaking fiscal deficits and the length of time that it would take the principal industrialised nations to reduce these to manageable levels. These worries against a generally nervous background, resulted in equity returns being negative in all regions with the exception of Japan which achieved a positive return of 2.7 a small improvement from its falls of 4.0% for the quarter ended 31st December 2009 and 5.8% for 2009 as a whole. Europe was the most laggard equity market retreating 5.8%. Fixed interest returns on the other hand were positive with corporate bonds advancing 2.3% and gilts 0.7%. However, index linked gilts merely marked time with an unchanged return. Another adverse factor for most markets was the increasing number of investors, both institutional and private, who decided to lock in some of the worthwhile profits they had made in 2009.

Index returns expressed in sterling for the month of January 2010

		Month ended 31st January 2010
		%
Equities		
Japan	FTSE Developed Japan	2.7
North America	FTSE North America	-2.9
UK	FTSE All Share	-3.6
Emerging Markets	MSCI Emerging Markets Free	-4.8
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	-5.5
Europe	FTSE Developed Europe (ex UK)	-5.8
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.3
UK Gilts	FTSE British Government All Stocks	0.7
UK ILGs	FTSE British Government IL Over 5 years	0.0
Property	IPD	n/a
Cash	Merrill Lynch LIBOR 3 Month	0.0

Currency Movements for month ended 31st January 2010

Currency	31st December 2009	31st January 2010	Change %
USD/GBP	1.615	1.602	-0.8
EUR/GBP	1.126	1.153	+2.4
USD/EUR	1.435	1.390	-3.1
Yen/USD	93.095	90.655	-2.6

Macro economic data and events from the regions were:-

UK

- GDP growth for the final quarter of 2009 was a minuscule and disappointing 0.1% versus a consensus expectation of 0.4%. Nevertheless, Chancellor Darling is sticking to his growth forecast for 2010 of 1 to 1 ½%.
- For the 3 months ended 30th November the total number of people classed as "economically inactive" rose to a record level of 8m or 21.2% of the working age population. This was driven by a sharp rise in students not seeking work. These figures do indeed underline the parlous state of the UK's employment market.
- The UK manufacturing index rose to 56.7 in January, the highest level for 15 years. British exporting companies benefited from the combination of inventory rebuilding, a recovering global economy and the weakness of sterling.
- The National Pension Service of South Korea is to increase its stake in Gatwick Airport to 12.0%.
- Following Kraft of America's take over of Cadbury, merger and acquisition activity could increase further as companies seek synergistic advantages. Weak sterling also makes the UK's companies more vulnerable to being taken over by foreign concerns.
- The Confederation of British Industry forecasts GDP growth of 1.2% in 2010 and 2.5% in 2011.

- CPI in December was 2.9% (November 1.9%). This is the largest increase on record. Mervyn King of the Bank of England said this rise was "temporary" and "did not constitute a continuing source of inflation". This smacks of wishful thinking and is probably in part caused by the vast amounts of money that the government has been printing under the guise of quantitative easing.
- According to the McKinsey company, the country with the biggest jump in debt relative to GDP over the past decade was the UK.
- On 7th January, unsurprisingly, the Bank of England held interest rates at ½% and voted to continue with its quantitative easing programme.
- The purchasing managers' index for services dropped to 54.5 in January from 56.8 in December due in part to heavy snow falls.

USA

- January export orders rose for a seventh consecutive month.
- The Institute of Supply Management's index increased in January to 58.4 (December 54.9), the highest level since August 2009.
- Bernanke was confirmed by the Senate for another 4 year term as Chairman of the Federal Reserve Board.
- On 27th January the FED kept interest rates on hold pledging to keep rates "exceptionally low" for "an extended period".
- Moody's, the rating agency, warned that the sovereign credit rating of the USA could come under increasing pressure unless stronger measures were taken to reduce the US budget deficit and unless economic growth improved.
- Large corporations have made understandably cautious statements about the outlook even though they have been experiencing signs of recovery.
- The Conference Board's consumer confidence index reached 55.9 in January, its highest level since September 2008.
- Existing home sales collapsed by 16.7% in December compared with a 7.4% rise in November.
- On 21st January Obama, aided and abetted by Paul Volcker (an ex Chairman of the FED) announced the most far reaching overhaul of Wall Street since the 1930s as a direct reply to the public dissatisfaction with the banks. Obama underlined his commitment by stating "never again will the American taxpayer be held hostage by a bank that is too big to fail". Banks are to be forbidden to run trading desks or "owning, investing in or sponsoring" hedge funds or private equity groups. These moves are similar to the Glass-Steagall Act (rescinded in 1999) which separated commercial and investment banking. Obama also plans a levy on big financial institutions in order to recoup some of the costs of the financial crisis.
- On the first year anniversary of Obama's presidency the Democratic Party lost to the Republicans the hitherto safe seat of Massachusetts. Part of this loss was a reflection that during Obama's term of office the unemployment rate in the USA has increased from 7.7% to 10.0%.
- There was an unexpected 0.3% drop in retail sales in December.
- Unemployment in January fell to a 5 month low of 9.7% (December 10.0%), but 20,000 jobs were lost, although this was an improvement on December's 150,000 lost jobs.

Europe

- Eurozone governments borrowed a record €110B in January with the unfortunate affect of increasing costs for countries with the weakest public finances.
- Spain's economy (four times that of Greece) is in dire straights with a deficit which is forecast to equate to 12% of GDP in 2010.
- In January, the Spanish unemployment rate was estimated to be 18.8% of the work force. This is by far the highest rate in the main Eurozone economies.
- Greece's ability to finance its voluminous debt levels continues to cause acute concerns.
- Germany's IFO business confidence index improved in January for the tenth consecutive month and reached a 17 month high.
- The German government estimates a GDP growth rate of 1.5% in 2010, up from its previous estimate of 1.2%.
- German industrial production fell by 2.6% in December (November +0.7%).
- The Eurozone's corporate purchasing managers' index for January was 53.6, down from December's 54.0.
- The French government estimates that GDP growth will be +1.4% in 2010 against its previous estimate of only +0.75%.

Japan

- New machinery orders fell by 11.3% in December.
- In December wages decreased by 6.1% p.a. constituting the nineteenth monthly fall. This clearly adds to deflationary fears.

Asia

- The People's Bank of China is acting more aggressively to curb demand for credit which had risen to unacceptable levels.
- China's GDP for the fourth quarter of 2009 grew by a powerful 10.7% p.a. and by 8.7% for the year as a whole. This compares with China's economic growth target of 8.0%.
- China's inflation rate in December was 1.9% p.a. (November 0.6% p.a.).
- China's industrial output in December was a most substantial 18.5% p.a. (November 19.2% p.a.).
- China's regulators have ordered certain banks to temporarily halt lending in order to rein in the growth of credit.

Conclusion

Macro economic data in January supported the view that the economies of the principal industrialised nations, with the exception of the UK, are recovering GDP at a pace that could not possibly have been envisaged a year ago. Corporate earnings have generally been appreciably better than expected. To an extent these factors have gone some way to dispelling the fear that countries could suffer from a double dip recession. However, realism dictates that, against these more optimistic factors, many countries, especially in the western hemisphere, are continuing to be bedevilled by the truly horrendous size of their fiscal deficits boosted by continuing quantitative easing programmes, e.g. European governments borrowed a record €110B in January alone, thus increasing borrowing costs of those countries in an extremely weak state namely Greece, Ireland, Portugal and Spain. Markets should be constantly aware just how long it will take such economies to repair their national balance sheets. Such recoveries should be measured in years rather than in months, especially in the most worrisome case of the UK. The worst affected countries will inevitably suffer erosion of their currencies, especially sterling. However, the corollary of this is the boost to their vital exporting corporations. Other factors on investors and economists watch lists will continue to be the real possibility that interest rates will have to rise, that inflation may re-emerge and that rates of unemployment may continue for longer than expected. In a most sobering assessment, the International Monetary Fund warned that the industrialised world could face 10 years of spending cuts and tax rises and that public finances could experience a decade of contraction.

It will take time before the net effect of the above conflicting influences can be gauged with a sufficient degree of confidence to make firmer market forecasts. Certainly for investors of a worrying disposition there is much to worry about. That is why the cautious conclusion reached in the earlier quarterly report still stands.

Valentine Furniss
8th February 2010

	Pension Fund Sub Committee 23rd February 2010 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

Report Title: Henderson Global Investors - Benchmark

This report is confidential

1 Summary

1.1 This report examines the UK government gilt benchmark used by Henderson Global Investors (HGI).

2 Recommendations

2.1 Members are asked to agree to amend the benchmark as suggested by HGI.

3.0 Detail

3.1 At the previous meeting of the Pension Fund Sub Committee on 24th November 2009, members decided to defer a decision on advice from HGI to amend the government gilt benchmark within the core portfolio from the Over 15 year gilt to the average length gilt (15.2 years) in the FTSE All Stocks index.

3.2 The use of the Over 15 year gilt benchmark has been beneficial to the Fund as long dated interest rates have fallen. This has been part of a long-term gilt bull market since 1981, during which rates have fallen from around 16% (to curb inflation) to 4%.

3.3 HGI tend to be very benchmark focused, measuring the risk of not meeting the benchmark. However, the house suggests that there are fundamental reasons why the gilt market may be changing and that the long term bull market may be ending. First, HGI expect longer term rates to rise as the UK government issues more gilts, quantitative easing ends, inflation fears rise and to encourage overseas buyers to purchase UK debt. HGI expect the longest dated (over ten years, up to fifty years) to be worst affected as rates rise, because prices may fall fairly sharply. Appendix 1, written by Henderson, outlines the potential cost of a 1% / 2% rise in gilt yields, and shows that losses may be smaller if the manager adjusts the portfolio in line with the All Stocks benchmark

3.4 Most economists would support HGI's view that gilt rates are likely to rise, and most would also agree that the longer dated stocks are most at risk. However, there is an alternative view that argues that UK is placed similar to Japan in the 1990's, when deflation took hold and long rates sunk very low. Such economists as Capital Dynamics argue that the current gap between productive capacity and consumption, as illustrated by low GDP growth, means that there will be deflationary pressures within the UK economy. These pressures will be strengthened as governments take steps to reduce the fiscal deficit, further reducing demand. Whichever view is taken, it is suggested that it would be sensible to reduce risk within the core gilt portfolio, but to maintain exposure to gilts in case rates fall (prices rise).

4.0 Financial Implications

4.1 These are outlined within the report.

5.0 Staffing Implications

5.1 There are no staffing implications.

6.0 Legal Implications

6.1 There are no legal implications.

7.0 Diversity Implications

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

8.0 Background Information

Monitoring Report to Pension Fund Sub Committee 24th November 2009.

Contact Officer

Martin Spriggs – Head of Exchequer and Investment

Appendix 1 – Note from Henderson

<u>Gilt yields and your fixed income portfolio's capital value with existing and revised benchmarks</u>

The following tables set out the potential impact on the capital value of your fixed income portfolio managed by Henderson in the event that gilt yields rise materially. The analysis takes two scenarios:

1) a rise in all gilt yields of 1%

2) a rise in all gilt yields of 2%

We model the potential impact of these market moves under two conditions:

a) Your existing benchmark remains in place

b) Your benchmark is amended to have a lower sensitivity to rising gilt yields (a lower duration) through changing the benchmark for the UK gilt element from the FTSE >15 year Gilt index to the FTSE All Stocks.

Both the percentage and actual potential impacts on the capital value are set out in the table below.

	Change in Gilt yields	
	+1%	**+2%**
Brent Existing Benchmark	-5.5%	-11.1%
Brent Revised Benchmark	-3.8%	-7.6%
Potential impact of benchmark change	1.7%	3.4%
	+1%	**+2%**
Brent Existing Benchmark	-£4.6m	-£9.2m
Brent Revised Benchmark	-£3.2m	-£6.4m
Potential impact of benchmark change	+£1.4m	+£2.8m

This analysis makes a number of assumptions:

The rise in yields occurs equally in gilt, index-linked and sterling corporate bond markets and across all bond maturities (a parallel move in the yield curve).
There is no impact on the capital value of the Enhanced sub-portfolio as interest rate risk is broadly zero in the Enhanced portion.
Your core portfolio maintains its interest rate risk (duration) at benchmark. (If we had a high conviction that gilt yields were likely to rise we would of course position the portfolio within existing permitted ranges in order to mitigate the impact but this would have a much less significant impact than a strategic benchmark change that alters the reference point around which we manage the portfolio.)
We assume the rise in gilt yields is immediate. In reality there will be income accruing to the portfolio over time and this is not taken in to account.
In practice the impact of the 2% rise in gilt yields will be a little less than double the 1% rise.

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BRENT COUNCIL	**Pension Fund Sub Committee** 23rd February 2010 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL
Report Title: European Withholding Tax	

1 Summary

1.1 This report details work commissioned to reclaim additional European withholding tax from various states.

2 Recommendations

2.1 Members are asked to note the report.

3.0 Detail

3.1 Most European countries levy a tax – known as a withholding tax – on dividends paid by companies within their jurisdiction. However, to encourage investors to invest in their home countries, local investors have often been able to either receive their dividends gross of withholding tax or been able to reclaim any tax suffered. However, overseas investors have been to irrecoverable withholding taxes.

3.2 EEC law (and European Free Trade Area (EFTA) rules) state that European investors should be treated equally – there should be no distortion of capital movements arising from local discrimination.

3.3 In 2004, judgements were handed down in two important test cases around European tax law. Fokus bank is a Norwegian bank which has paid dividends to Norwegian shareholders in respect of shares previously held by non-resident shareholders in the UK and Germany. Under Norwegian domestic tax law (now repealed) dividends paid to non-resident shareholders in Norwegian resident companies were subject to a 15% rate of dividend withholding tax. In addition, Norway ran a full imputation system imputing the 28% Norwegian corporation tax to Norwegian resident shareholders, but not to non resident shareholders. This case was heard by the EFTA court. The facts of the Fokus case were very similar to those in the European Court of Justice case of Manninen v Finland, where Finland was similarly running a full imputation system, but only imputing domestic corporation tax paid by the Finnish resident companies to Finnish resident individual shareholders.

3.4 The courts ruled that the arrangements followed by the Finnish (ECJ) and Norwegian (EFTA) authorities were contrary to law. However, other issues now arise, in particular, the impact on other European states that have / have had similar arrangements, and how far back claims for repayment of tax can go.

Actions taken by Brent

3.5 The accountancy firm, KPMG, has been prominent in publicising its tax recovery services to local authorities. KPMG identifies which countries have adopted tax systems that are contrary to European / EFTA law, which are now accepting claims to recover tax, and which might in future. They have identified fourteen countries that appear to be in breach of perceived European law (including France, Germany, Netherlands (now repaying), Italy and Spain). KPMG liaises with custodians to gather information about tax suffered, and present claims to local tax authorities. They also institute local legal action where individual countries are seeking to resist repayment – this is likely to be required in France. KPMG currently have around 30 local authority clients.

3.6 Although the custodian (Bank of New York Mellon) reclaims tax in normal circumstances, they are not able to provide a retrospective service where the European Court of Justice is involved. Brent has therefore signed up to use the services of KPMG – the issue became urgent because there was a danger of losing potential recoveries if claims were not registered by 31st December. The fees payable are £29,500 (at present the council is committed to 3 countries, but this is may grow) and a share of costs if legal action is required.

3.7 It is anticipated that the claims may amount to around £600,000. The amount that may be recovered depends on legal action, the extent of any retrospection and records of holdings and tax withheld. For example, Finland may be required to go back to 1994, but Norway is maintaining that any retrospection should not go beyond three years. Value for money will also be an issue – members will be aware that overseas equity exposure did not rise above 25% of the Brent Fund until 2003, so that claims may not be worth pursuing apart from in major markets (possibly France, Germany, Netherlands and Italy).

3.8 Resolution will take some time, but the initial claims have been submitted for Germany, France and Netherlands. KPMG is optimistic that substantial recoveries can be made.

4.0 Financial Implications

4.1 These are outlined within the report.

5.0 Staffing Implications

5.1 There are no staffing implications apart from authorising claims and liaising with custodians and KPMG.

6.0 Legal Implications

6.1 There are no legal implications.

7.0 Diversity Implications

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

8.0 Background Information

Articles in the Tax Adviser in January 2005 (Manninen case) and March 2005 (Fokus case)

Contact Officer

Martin Spriggs – Head of Exchequer and Investment
Duncan McLeod – Director of Finance and Corporate Resources

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