



**Pension Fund Sub-Committee**  
7 October 2013

**Report from the Deputy Director of Finance**

For Information

Wards Affected:  
ALL

**Pension Fund Annual Report and Accounts 2012/13**

**1. SUMMARY**

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

**2. RECOMMENDATIONS**

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

### **3. DETAIL**

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

### **4. FINANCIAL IMPLICATIONS**

- 4.1 These are included within the report.

### **5. DIVERSITY IMPLICATIONS**

- 5.1 None.

### **6. STAFFING IMPLICATIONS**

- 6.1 None.

### **7. LEGAL IMPLICATIONS**

- 7.1 None.

### **8. BACKGROUND INFORMATION**

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

### **9. CONTACT OFFICERS**

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

**MICK BOWDEN**  
Deputy Director of Finance

**ANTHONY DODRIDGE**  
Head of Exchequer and Investment



## **Brent Pension Fund**

# **Annual Report and Accounts 2012/13**

Pensions Regulator Scheme Number: 10272080

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## Chairman's Foreword

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

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

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

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

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

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

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

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

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

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

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

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

Cllr Shafique Choudhary  
Chairman, Brent Pension Fund Sub-Committee

## Management Structure

|                                     |  |
|-------------------------------------|--|
| <b>Administering Authority:</b>     | Brent Council<br>Civic Centre<br>Engineers Way<br>Wembley<br>Middlesex<br>HA9 0FJ  |
| <b>Brent Pension Fund Officers:</b> | Anthony Dodridge, Head of Investments<br>Andrew Gray, Pensions Manager   |
| <b>Legal Advisers:</b>              | In-house   |
| <b>Custodian:</b>                   | BNY Mellon   |
| <b>Actuary:</b>                     | Hymans Robertson   |
| <b>Independent Adviser:</b>         | Peter Davies   |
| <b>Fund Managers:</b>               | Legal & General<br>Henderson<br>Capital Dynamics<br>Yorkshire Fund Managers<br>Fauchier<br>Baillie Gifford<br>Aviva<br>Dimensional<br>Alinda |
| <b>Banker:</b>                      | NatWest  |
| <b>Auditor:</b>                     | KPMG   |
| <b>Performance Measurement:</b>     | WM   |
| <b>AVC Providers:</b>               | Clerical Medical<br>Equitable Life (legacy only)   |

# **The Local Government Pension Scheme**

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

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

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

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

## **The LGPS in brief**

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

# **Governance**

## **Governance Statement**

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

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

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

## **Administering Authority**

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

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

## **Governance Compliance**

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

The full compliance statement is at page 60.

## **Pension Fund Sub-Committee**

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

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

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

### **Pension Fund Sub-Committee Membership as at 31 March 2013**

**Chair:** Cllr Shafique Choudhary

**Vice Chair:** Cllr George Crane

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

**Employee representative:** George Fraser

**Employer representative:** Ashok Patel

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

### **Pension Fund Sub-Committee Training**

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

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

### **Conflict of Interests**

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

## **Accountability and Transparency**

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at [www.brent.gov.uk](http://www.brent.gov.uk).

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

# **Scheme Administration**

## **The Brent Pensions Team**

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

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

The team's responsibilities include the following:

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

## **Operational costs**

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

## Communications

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

In all our communications we aim to:

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

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

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

## Actuarial Position

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

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

In summary, the key funding principles are as follows:

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

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

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

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

# Investment Review 2012/13

## Economic Background

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

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

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

## Market Returns

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

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

## Outlook

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

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

**Peter Davies, Independent Adviser**  
**10 July 2013**

# **Investment Policy and Performance**

## **Fund Performance Review for the year 2012/13**

### **Introduction**

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

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

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

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

### **2012/13 Investment Results**

During the year, equity markets were boosted by positive macroeconomic data which pointed to an improvement in the global economy. This encouraged investors to focus on the value offered by equities versus other assets. The banking bail-out in Cyprus dented sentiment to some extent but on the whole investors became more tolerant about the continuing troubles of the Eurozone.

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

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

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

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

|          | Period ended 31 March 2012 | Period ended 31 March 2013 |
|----------|----------------------------|----------------------------|
| 1 year   | 98 <sup>th</sup>           | 85 <sup>th</sup>           |
| 3 years  | 98 <sup>th</sup>           | 97 <sup>th</sup>           |
| 5 years  | 100 <sup>th</sup>          | 100 <sup>th</sup>          |
| 10 years | 100 <sup>th</sup>          | 98 <sup>th</sup>           |

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

However, the Brent Pension Fund has benefited from a significant improvement in investment returns during the financial year ended 31 March 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 98<sup>th</sup> to 85<sup>th</sup> percentile.

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

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

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

## **Funding Strategy Statement**

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

## **Statement of Investment Principles**

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

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

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

## Pension Fund Accounts for 2012/13

| Brent Pension Fund Account   |       | 2011/12              | 2012/13              |
|--|-------|----------------------|----------------------|
|  | Notes | £'000                | £'000                |
| <b>Dealings with members, employers and others directly involved in the fund</b>               |       |                      |                      |
| Contributions  | 7     | (41,663)             | (43,782)             |
| Transfers in from other pension funds  | 8     | (2,152)              | (1,361)              |
|  |       | <b>(43,815)</b>      | <b>(45,143)</b>      |
| Benefits   | 9     | 34,292               | 34,172               |
| Payments to and on account of leavers  | 10    | 3,132                | 3,283                |
| Administration expenses  | 11    | 1,013                | 954                  |
|  |       | <b>38,437</b>        | <b>38,409</b>        |
| Net (additions)/withdrawals from dealings with members   |       | <b>(5,378)</b>       | <b>(6,734)</b>       |
| <b>Returns on investments</b>  |       |                      |                      |
| Investment income  | 12    | (8,236)              | (3,450)              |
| (Profits) and losses on disposal of investments and changes in the market value of investments | 14a   | 7,477                | (45,240)             |
| Investment management expenses   | 13    | 2,599                | 1,438                |
| Net return on investments  |       | <b>1,840</b>         | <b>(47,252)</b>      |
| Net (increase)/decrease in the net assets available for benefits during the year               |       | <b>(3,538)</b>       | <b>(53,986)</b>      |
| <b>Net Assets Statement</b>  |       |                      |                      |
|  |       | <b>31 March 2012</b> | <b>31 March 2013</b> |
|  | Notes | £'000                | £'000                |
| Investment assets  | 14    | 484,824              | 538,297              |
|  |       | <b>484,824</b>       | <b>538,297</b>       |
| Current assets   | 19    | 8,955                | 8,660                |
| Non current assets   | 20    | 1,921                | 1,357                |
| Current liabilities  | 21    | (1,803)              | (431)                |
| Net assets of the fund available to fund benefits at the period end                            |       | <b>493,897</b>       | <b>547,883</b>       |

## **Notes to the Brent Pension Fund accounts**

### **1. Description of Fund**

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

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

#### **a) General**

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

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

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

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

#### **b) Membership**

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

Organisations participating in the Brent Pension Fund include:

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

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

**Scheduled bodies**

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

**Admitted bodies**

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

| <b>Brent Pension Fund</b>               | <b>31 March 2012</b> | <b>31 March 2013</b> |
|---|----------------------|----------------------|
| Number of employers with active members | 26                   | 35                   |
| <b>Number of employees in scheme</b>    |                      |                      |
| Brent Council                           | 4,467                | 4,091                |
| Other employers                         | 931                  | 1,282                |
| <b>Total</b>                            | <b>5,398</b>         | <b>5,373</b>         |
| <b>Number of pensioners</b>             |                      |                      |
| Brent Council                           | 5,402                | 5,381                |
| Other employers                         | 571                  | 669                  |
| <b>Total</b>                            | <b>5,973</b>         | <b>6,050</b>         |
| <b>Deferred pensioners</b>              |                      |                      |
| Brent Council                           | 6,187                | 6,749                |
| Other employers                         | 707                  | 374                  |
| <b>Total</b>                            | <b>6,894</b>         | <b>7,123</b>         |

### c) Funding

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

## d) Benefits

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

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

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

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

## LGPS 2014

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

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

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

## **2. Basis of preparation**

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

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

## **3. Summary of significant accounting policies**

### **Fund Account – revenue recognition**

#### **a) Contribution income**

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

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

#### **b) Transfers to and from other schemes**

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

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

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

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

**c) Investment income**

**i) Interest income**

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

**ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**iii) Distributions from pooled funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**iv) Movement in the net market value of investments**

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund Account – expense items**

**d) Benefits payable**

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

**e) Taxation**

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

#### **f) Administration expenses**

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

#### **g) Investment management expenses**

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

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

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

#### **Net Assets Statement**

#### **h) Financial assets**

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

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

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

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

**i) Foreign currency transactions**

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

**j) Derivatives**

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

**k) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

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

#### **l) Financial liabilities**

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

#### **m) Actuarial present value of promised retirement benefits**

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

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

#### **n) Additional voluntary contributions**

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

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

### **4. Critical judgements in applying accounting policies**

#### **Unquoted private equity/infrastructure investments**

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

**Pension fund liability**

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

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

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

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

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

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

## 6. Events after the Balance Sheet date

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

## 7. Contributions receivable

### By category

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

**By authority**

|                  | <b>2011/12</b> | <b>2012/13</b> |
|------------------|----------------|----------------|
|                  | <b>£'000</b>   | <b>£'000</b>   |
| Scheduled bodies | 40,727         | 42,626         |
| Admitted bodies  | 936            | 1,156          |
| <b>Total</b>     | <b>41,663</b>  | <b>43,782</b>  |

**8. Transfers in from other pension funds**

|                      | <b>2011/12</b> | <b>2012/13</b> |
|----------------------|----------------|----------------|
|                      | <b>£'000</b>   | <b>£'000</b>   |
| Individual transfers | 2,152          | 1,361          |
| <b>Total</b>         | <b>2,152</b>   | <b>1,361</b>   |

**9. Benefits payable****By category**

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

**By authority**

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

## 10. Payments to and on account of leavers

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

## 11. Administration expenses

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

## 12. Investment income

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

### 13. Investment management expenses

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

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

### 14. Investments

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

### a) Reconciliation of movements in investments

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

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

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

**b) Analysis of investments**

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

## Investments analysed by fund manager

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

All the above companies are registered in the United Kingdom.

### Concentration of investments

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

### c) Stock lending

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

## 15. Financial instruments

### a) Classification of financial instruments

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

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

## b) Net gains and losses on financial instruments

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

## c) Fair value of financial instruments and liabilities

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

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

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

## d) Valuation of financial instruments carried at fair value

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

### Level 1

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

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

## **Level 2**

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

## **Level 3**

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

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

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

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

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

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

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

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

## **16. Nature and extent of risks arising from financial instruments**

### **Risk and risk management**

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

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

#### **a) Market risk**

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

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

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

The Fund manages these risks in two ways:

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

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

**Other price risk**

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

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

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

**Other price risk – sensitivity analysis**

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

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

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

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

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

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

## Interest rate risk

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

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

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

|                           | 31 March 2012<br>£'000 | 31 March 2013<br>£'000 |
|---------------------------|------------------------|------------------------|
| Cash balances             | 5,591                  | 5,534                  |
| Fixed interest securities | 77,040                 | 82,898                 |
| <b>Total</b>              | <b>82,631</b>          | <b>88,432</b>          |

## Interest rate risk sensitivity analysis

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

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

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

  

| Asset type | Carrying amount as at<br>31 March 2012<br>£'000 | Change in year in the net<br>assets available to pay<br>benefits |                   |
|------------|---|--|-------------------|
|            |   | +100 BPS<br>£'000  | -100 BPS<br>£'000 |

|   |               |            |             |
|---|---------------|------------|-------------|
| Cash balances                           | 5,591         | 56         | -56         |
| Fixed interest securities               | 77,040        | 770        | -770        |
| <b>Total change in assets available</b> | <b>82,631</b> | <b>826</b> | <b>-826</b> |

### Currency risk

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

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

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

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

### Currency risk – sensitivity analysis

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

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

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

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

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

## **b) Credit risk**

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

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

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

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

|                              | <b>Rating</b> | <b>Balances as<br/>at 31 March<br/>2012<br/>£'000</b> | <b>Balances as<br/>at 31 March<br/>2013<br/>£'000</b> |
|------------------------------|---------------|---|---|
| <b>Bank deposit accounts</b> |               |   |   |
| NatWest                      | A             | 5,591   | 5,534   |
| <b>Total</b>                 |               | <b>5,591</b>  | <b>5,534</b>  |

### **c) Liquidity risk**

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

The Pension Fund has immediate access to its cash holdings.

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

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

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

## **Refinancing risk**

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

## **17. Funding arrangements**

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

The key elements of the funding policy are:

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

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

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

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

| <b>Year</b> | <b>Employers' contribution rate</b> |
|-------------|-------------------------------------|
| 2011/12     | 25.1%                               |
| 2012/13     | 26.9%                               |
| 2013/14     | 27.4%                               |

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

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

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

#### Discount rate for periods

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

#### **Mortality assumptions**

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

| <b>Mortality assumption at age 65</b> | <b>Male</b> | <b>Female</b> |
|---------------------------------------|-------------|---------------|
| Current pensioners                    | 23.7 years  | 26.5 years    |

**Commutation assumption**

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

**18. Actuarial present value of promised retirement benefits**

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

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The Actuary has also used valued ill health and death benefits in line with IAS 19.

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

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

**Assumptions used**

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

## 19. Current assets

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

## Analysis of debtors

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

## 20. Non current assets

|                    | 31 March 2012<br>£'000 | 31 March 2013<br>£'000 |
|--------------------|------------------------|------------------------|
| Non current assets | 1,921                  | 1,357                  |
| <b>Total</b>       | <b>1,921</b>           | <b>1,357</b>           |

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

## 21. Current liabilities

|                  | 31 March 2012<br>£'000 | 31 March 2013<br>£'000 |
|------------------|------------------------|------------------------|
| Sundry creditors | 1,803                  | 431                    |
| <b>Total</b>     | <b>1,803</b>           | <b>431</b>             |

### Analysis of creditors

|                                | 31 March 2012<br>£'000 | 31 March 2013<br>£'000 |
|--------------------------------|------------------------|------------------------|
| Central government bodies      | 10                     | 5                      |
| Other entities and individuals | 1,793                  | 426                    |
| <b>Total</b>                   | <b>1,803</b>           | <b>431</b>             |

## 22. Additional voluntary contributions

|                  | Market value<br>31 March 2012<br>£'000 | Market value<br>31 March 2013<br>£'000 |
|------------------|--|--|
| Clerical Medical | 1,138                                  | 1,190                                  |
| Equitable Life   | 175                                    | 172                                    |
| <b>Total</b>     | <b>1,313</b>                           | <b>1,362</b>                           |

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

## 23. Related party transactions

### Brent Council

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

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

## Governance

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

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

## Key management personnel

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

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

## 24. Contingent liabilities

The Fund had no contingent liabilities at 31 March 2013.

## 25. Contractual commitments

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

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

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

## 26. Contingent assets

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

|   | <b>31 March 2012</b> | <b>31 March 2013</b> |
|---|----------------------|----------------------|
|   | <b>£'000</b>         | <b>£'000</b>         |
| Wettons (Estate Cleaning & North Grounds Maintenance) | 158                  | 158                  |
| Wettons (South Grounds Maintenance)                   | 145                  | 145                  |
| Capita Business Services Limited                      | 123                  | 123                  |
| Willow Housing & Care Limited                         | 45                   | 45                   |
| Xerox (UK) Limited                                    | 0                    | 29                   |
| <b>Total</b>  | <b>471</b>           | <b>500</b>           |

## 27. Impairment losses

The Fund had no impairment losses at 31 March 2013.

# Statement of Responsibilities

## The Fund's responsibilities

The Fund is required to:

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

## Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

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

## Chief Finance Officer's statement

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

**Mick Bowden CPFA**  
Deputy Director of Finance

# **Independent Auditor's Report**

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

### **Opinion on the pension fund financial statements**

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

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

### **Respective responsibilities of the Chief Finance Officer and auditor**

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

### **Scope of the audit of the financial statements**

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

## **Opinion on accounting statements**

In my opinion the pension fund's financial statements:

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

## **Opinion on other matters**

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

## **Matters on which I report by exception**

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

KPMG LLP  
15 Canada Square  
London  
E14 5GL

# Appendices

## Annual Governance Statement

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

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

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

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

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

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

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

The Pension Fund Sub-Committee consists of:

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

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

## **Training**

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

## **Use of advisers**

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

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

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

## **Communications with Fund employers and members**

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

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

## Governance Compliance Statement

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

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

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

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

# Communication Policy Statement

## Introduction

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

We have five key stakeholder groups:

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

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

## Our communication with scheme members

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

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

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

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

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

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

An annual newsletter is sent to pensioners each March.

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

### **Our communication with employing authorities**

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

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

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

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

### **Our communication with Capita Employee Benefits**

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

### **Our communication with Brent Pensions Team staff**

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

### **Our communication with other bodies**

We provide information to members' representatives on request.

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

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

# **Funding Strategy Statement**

## **Introduction**

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

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

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

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

## **Purpose of the Funding Strategy Statement**

The FSS has two main purposes:

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

## **Aims of the Fund**

The Fund has four main aims:

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

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

## **To make sure the Fund can always meet its liabilities**

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

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

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

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

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

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

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

## **To manage the employers' liabilities effectively**

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

## **To maximise the income from investments within reasonable risk parameters**

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

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

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

## **Responsibilities of the key parties**

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

### **The Council's obligations as Administering Authority**

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

## **Individual employers' obligations**

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

## **The Actuary's obligations**

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

## **Funding Target and Solvency**

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

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

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

## **Recovery period**

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

## **Grouping**

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

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

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

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

## **Stepping**

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

## **Notional sub-funds for individual employers**

### *Notional sub-funds*

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

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

### *Roll forward of sub-funds*

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

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

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

### *Attribution of investment income*

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

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

### **Subsumed liabilities**

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

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

## **Orphan liabilities**

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

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

## **Cessation of participation**

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

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

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

## **Identification of risks and counter measures**

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

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

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

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

### **Demographic**

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

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

### **Regulatory**

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

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

## **Governance**

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

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

## **Statistical/financial**

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

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

## **Smoothing**

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

## **Recovery period**

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

## **Stepping**

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

# Statement of Investment Principles

## Introduction

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

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

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

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

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

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

## **Effective decision-making**

Administering authorities should ensure that:

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

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

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

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

- a) determining the overall investment strategy and strategic asset allocation
- b) appointing the investment managers, the Independent Adviser and the Actuary
- c) reviewing investment manager performance and processes regularly.

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

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

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

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

The Chief Finance Officer at Brent Council is responsible for:

- a) advising and reporting to the Pension Fund Sub-Committee
- b) reviewing the activities of the investment managers on a regular basis
- c) keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

The investment managers are responsible for:

- a) the investment of Pension Fund assets in accordance with legislation, the Statement of Investment Principles (SIP) and the individual investment management agreements
- b) preparation of monthly and quarterly reports detailing activity, investment performance and future strategy, and attendance at the Pension Fund Sub-Committee.

The Actuary is responsible for:

- a) undertaking a triennial revaluation of the assets and liabilities of the Fund
- b) providing annual FRS17 / IAS19 valuations
- c) providing advice on the maturity of the Fund.

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

### **Clear objectives**

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

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

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

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

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

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

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

The table below shows the asset allocation structure:

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

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

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

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

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

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

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

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

For fixed income, property, UK equities, overseas equities, emerging market equities, hedge funds, infrastructure, diversified growth and private equity, the Fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

The current fund managers are:

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

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

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

- a) invest more than 10% of the Fund in any single holding
- b) invest more than 35% of the Fund in unit trusts managed by any one body
- c) excluding loans to the Government, lend more than 10% of the value of the Fund to any one borrower
- d) invest more than 15% of the Fund in unlisted securities of companies
- e) contribute more than 5% of the Fund to any single partnership
- f) contribute more than 30% of the Fund to partnerships.

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

- a) invest in any in-house fund without prior consent
- b) exceed the limits set out in the asset allocation ranges detailed in the benchmark
- c) borrow
- d) engage in underwriting or sub-underwriting on behalf of the fund
- e) enter into soft commission arrangements, by which business is directed to brokers in exchange for other services such as research or systems.

Managers may use derivatives to facilitate asset allocation decisions and trading, and to obtain exposure to markets / assets, to reduce trading costs. All open and completed transactions will be included in monthly transactions and quarterly reports.

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

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

The Fund does not operate a Stock Lending programme.

## **Risk and liabilities**

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

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

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

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

There are three main definitions of risk:

- a) severe market decline and funds losing value (absolute risk), as occurred in 2008
- b) underperformance when compared to a peer group (WM local authority universe) or relevant stock / bond markets (relative risk)
- c) not meeting the liabilities set out in the LGPS. The Fund had a deficit of £294m when valued in 2010, and is following a 25-year recovery period.

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

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

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

- 1) To enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, reinvest income from dividends or interest received.

- 2) Assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the Fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met.
- 3) The Brent Pension Fund is mature, there being many more pensioners than working members - to the extent that 61% of assets are 'owned' by pensioner liabilities. Therefore, there is a need to consider the risks involved in pursuing a long-term equity-based strategy when a market correction, and lower dividend payments, could reduce the value of the Fund. There is currently a 'mismatch' between the allocation of around 85% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the Fund. However, this is balanced by the expectation that equities will generate additional returns to facilitate the payment of pensioners', active and deferred members' benefits. Contributions from employers and employees are calculated on the basis that they will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to reinvest income and change their stock selections without concern about the need to realise assets quickly. However, most assets (around 70%) are liquid and invested in recognised stock exchanges.

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

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

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

### **Performance assessment**

Arrangements should be in place for:

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

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

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

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

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

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

Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms in relation to their benchmark over a 'substantial' period (defined as two years), a review of the mandate will be considered.

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

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

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

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

Amongst the criteria by which managers will be selected are:

- a) Investment process, including investment philosophy, research, the asset allocation process, controls on stock selection, and risk controls
- b) Past performance, including spread of results and volatility
- c) Personnel, including levels of experience, staff turnover, and the individual managers offered
- d) Administration, including systems, contacts, references from other customers, and the ability to meet requirements on reporting
- e) Resources, including the number of professionals employed, the number of funds serviced, the number of funds gained or lost over the last 5 years, and the controls on over-rapid growth
- f) Professional judgement.

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

### **Responsible ownership**

Administering authorities should:

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

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

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

The Pension Fund Sub-Committee has instructed its managers to exercise the Fund's responsibility to vote on corporate governance issues wherever possible. They have also been instructed to intervene in companies that are failing and thus jeopardising the Fund's interests, by voting or by contacting company management direct.

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

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

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

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

## **Transparency and reporting**

Administering authorities should:

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

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

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

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

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

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

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

## **Glossary**

### **Active Management**

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

### **Actuarial Valuation**

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

### **Actuary**

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

### **Administering Authority**

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

### **Admitted Bodies**

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

### **Alternative Investments**

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

### **Asset Allocation / Asset Mix**

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

### **Auditor**

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

**AVCs**

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

**Benchmark**

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

**Bond**

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

**Bulk Transfer**

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

**Cessation Valuation**

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

**Commutation**

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

**Contingent Liability**

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

**Deferred Member**

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

**Dividends**

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

**Emerging Markets**

The financial markets of developing economies.

**Equities**

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

**Final Pay**

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

**Fixed Interest Securities**

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

**FTSE**

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

**Fund Manager**

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

**Funding Target**

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

**Gilts**

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

**Global Custodian**

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

**Guarantor**

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

**Hedge Fund**

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

**Hedging**

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

**Income Yield**

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

**Index**

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

**Index-Linked Securities**

Investments which generate returns in line with an index.

**Investment Adviser**

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

**LGPS**

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

**LIBOR**

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

**Mandate**

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

**Market Value**

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

**Orphan Liabilities**

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

**Outperformance / underperformance**

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

**Performance**

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

**Pooled Investment Fund**

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

**Portfolio**

Term used to describe all investments held.

**Private Equity**

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

**Recovery Period**

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

**Regulations**

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

**Risk**

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

**Scheduled Bodies**

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

**Securities**

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

**Solvency**

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

**Statement of Investment Principles**

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

**Transfer Value**

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

**Unit Trust**

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

**Yield Curve**

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