BRENT COUNCIL

Pension Fund Sub-Committee
29 June 2010

Report from the Director of Finance and Corporate Resources

Wards affected:
ALL

Urgent action on currency – amendment to Statement of Investment Principles

1 Summary

1.1 This report details the recent urgent reaction to concerns about the value of sterling, and examines how the Fund should react to warnings of a sharp fall in markets. The report also proposes an amendment to the Statement of Investment Principles.

2 Recommendations

2.1 Members are asked to note the action taken and agree the new process in the Statement of Investment Principles.

3.0 Detail

3.1 Although the Director of Finance and Corporate Resources is empowered to act in the event of a threat to the financial health of the Pension Fund, this has usually been interpreted as concerns about a fund manager, rather than concerns about a sharp fall in markets, and hence a change to the asset allocation of the Fund.

3.2 However, there have been occasions where concerns have been expressed about the value of markets and the likelihood of a major correction. Although economic signals can easily be interpreted incorrectly, there are valuable signals such as:-

a) Property yields falling too far, as in 2006. Comparisons to index linked yields, and to average long-term rental yields indicated that markets had become overheated.

b) Dividend yields on equities can also fall too low. For example, IT, telephony and media stocks became hugely overvalued in 1999, leading to the crash of 2000.

c) Bank lending can become excessive, as in the period to 2007.

d) Market concerns about the value of sterling.

3.3 Members will be aware that, following advice from WM, a currency hedge of 75% was established by AllianceBernstein to protect the Fund against movements in the value of sterling. Unfortunately, in 2008 sterling fell sharply (by around 25%), so that currency gains from holding overseas stocks were lost. Performance, relative to other, unhedged funds, suffered. However, in 2009 sterling rose in value (by around 10%), so that the Fund was protected from declining overseas currency values. In March 2010, concerns about an imminent sharp fall in the value of sterling were again expressed in the investment press. It was felt that the slow recovery and imminent election would undermine the currency.

3.4 Following discussions between the Director of Finance and Corporate Resources, the Independent Adviser, AlianceBernstein and other managers, the view was taken that a sharp fall in the value of sterling was likely. On this basis, it was agreed that the currency hedge be suspended until it was felt that sterling prospects were less uncertain. It is understood that sterling is probably undervalued on a fundamental basis, but that low interest rates, a slow recovery, uncertainty about the general election and attempts by the Bank of England to support exports by 'talking down' the currency made short term prospects poor.

3.5 Given the perceived urgency of the situation, the Chair of the Sub Committee was not consulted before action was taken, but after the event. However, it appears to be sensible to agree a process for urgent action that involves the Chair, and to include this in the Statement of Investment Principles (SIP). The process would be as follows:-

If the Director of Finance and Corporate Resources becomes concerned that there may be an imminent severe market correction, he 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.

3.6 It is proposed that the Independent Adviser be included in the consultation because he gathers market intelligence that may be helpful on such occasions. Investment managers would also be consulted. AllianceBernstein, who previously managed the 75% hedge, would be asked to contact either the Head of Investment or the Director of Finance & Corporate Resources, or their deputies, if they were concerned about the value of sterling.

3.7 Since the currency hedge was removed at the beginning of March, sterling has been volatile and has fallen against a number of currencies including the dollar and yen, but risen against other European currencies, including the euro. Overall, sterling lost around 1.5% in value during the period 1st March – 31st May (worth around £1.9m), and has fallen further since then (as at 9th June).

3.8 The issue of the currency hedge will be kept under close review. Members have previously expressed a wish to reduce the risks arising from currency volatility by operating a currency hedge. On this basis, a suitable occasion for reinstatement will be sought.

3.9 A revised Statement of Investment Principles has been attached to the report, to include both the emergency procedure and the Brent response to Myner's Six Principles of investment.

4.0 Financial Implications

4.1 These are outlined within the report.

5.0 Staffing Implications

5.1 None

6.0 Legal Implications

6.1 There are no legal implications.

7.0 Diversity Implications

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

8.0 Background Information

Pension Fund Sub Committee report 3rd December 2007 – Issues arising from the 2006/07 WM Report

Contact Officer: Martin Spriggs – Head of Exchequer and Investment

Duncan McLeod
Director of Finance and Corporate Resources

LONDON BOROUGH OF BRENT PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Investment Responsibilities

1 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 as administering authority 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.

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

3 The Director of Finance and Corporate Resources at Brent Council is responsible for:

a) Advising and reporting to the Pension Fund Committee.

b) Reviewing the activities of the investment managers on a regular basis.

c) Managing the in-house UK equity portfolio on an index-tracking basis using the FTSE 350 as a benchmark.

d) Keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

4 The investment managers are responsible for:

a) The investment of pension fund assets in accordance with legislation, the Statement of Investment Principles 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.

5 The actuary is responsible for:

a) Undertaking a triennial revaluation of the assets and liabilities of the fund.

b) Providing advice on the maturity of the fund.

6 The independent adviser is responsible for the provision of advice to the Sub Committee and the Director of Finance and Corporate Resources on all investment issues, in particular asset allocation, new developments and monitoring managers.

The Management of Risk

7 There are three main definitions of risk:

a) severe market decline and funds losing value (absolute risk), as occurred in the period 2000 - 2003.

b) underperformance when compared to a peer group (WM2000, or other local authorities) or relevant stock / bond markets (relative risk).

c) not meeting the liabilities set out in the Local Government Pension Scheme. The Fund had a deficit of £174m when valued in 2004, and` is following a 25 year recovery period.

8 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 authority's investment restrictions, which are designed to reduce risk.

9 To add value, the Fund seeks exposure to a variety of risks and associated risk premia. The search for outperformance will, on occasions, involve the risk of underperformance through the adoption of contrarian positions. The extent of any underperformance, through relative risk, has been reduced by diversification and the use of index-tracking with regard to UK equities, index benchmarks and asset allocation ranges in fixed interest.

10 The third definition of risk – failure to meet liabilities – is managed in three ways. First, 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. Second, 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. Third, the Brent fund is mature, there being many more pensioners than working members - to the extent that 62% 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 investment of 91% of the fund in 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; first, the expectation that equities will generate additional returns to facilitate the payment of both pensioners' and active members' benefits; second, it is calculated that contributions from employers and employees will be sufficient to meet benefit payments over at least the next ten years. 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 are liquid and invested in recognised stock exchanges.

11 If the Director of Finance and Corporate Resources becomes concerned that there may be an imminent severe market correction, he 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.

Investment Objectives

11 The prime investment objective is to maximise long-term investment returns subject to an appropriate level of risk implicit in the targets set for each investment manager. The current targets are:

a) UK equities – to match the FTSE 350 index.

b) Global equities – to beat the FTSE All World Index by 3% per annum over rolling three-year periods, and to manage currency exposure

c) Fixed interest – to outperform a composite benchmark on 50% of the portfolio:

25% FTSE Actuaries All Stocks index (UK government bonds)

25% Merrill Lynch non-gilt index (Corporate bonds)

by 1% per annum over rolling three year periods, avoiding underperforming the benchmark by 1.5% in any twelve month period.

To outperform a cash benchmark on 50% of the fund that is managed on a high performance benchmark.

d) UK Small companies – to outperform the FTSE Small cap ex IT index by 2% per annum.

e) Property – UK property to outperform the IPD All properties index by 0.5% per annum over rolling three- year periods, and European property to return 8% per annum.

f) Private equity – to achieve an average return of 10% - 15% per annum over the life of the fund.

g) Hedge funds – to achieve an average return of 9% per annum (LIBOR + 5%).

h) Global Tactical Asset Allocation – to achieve an average return of 20% per annum.

i) Infrastructure – to achieve an average return of 15% per annum, comprising both income and capital growth.

12 The achievement of these targets should attain a minimum real rate of return of 4% - 5% per annum over rolling three-year periods (see asset allocation for returns expected from each market). The 2007 Actuarial Valuation anticipated a return of gilts plus 1.5% per annum, giving a total return of 6.2% per annum.

Asset Allocation

13 Three general points should be noted. First, LGPS regulations require that funds achieve ‘proper diversification’, which may be considered in terms of ensuring that investments are spread through a number of markets whose movements are not closely correlated. This affords some protection in the event of market corrections, and allows gains from a variety of sources. Second, equities have been the best performing asset class over the very long term, property has performed well over

ten years but has tended to be slightly behind equities, whereas bonds and cash have performed less well. Third, exposure to fixed interest gilts and corporate bonds provide income and increased certainty of returns as appropriate for a mature fund. Fourth, exposure to other asset classes adds to diversification and allows additional returns in less well researched markets. The Myners' report advocated that funds should consider all the main asset classes in setting its asset allocation, allowing the Fund access to different risk premia (such as time, currency and different asset valuations).

14 The asset allocation adopted for the fund is as follows:

Asset Class	**Prop. of Fund %**	**Range %**	**Expected Return p.a %**	Benchmark
UK equities	18.5	15-30	6 - 9	FTSE 350
UK Small companies	4	3 - 5	6 - 9	FTSE Smallcap index ex IT
Global equities	26.5	17.5-30	6 - 9	FTSE All World
UK Fixed interest	4.5	2 - 9	4 - 7	FTSE UK All Gilts
Corporate bonds	4.5	1 - 9	4 - 8	Merrill Lynch non-gilt
Secured Loans	4.5	1 - 9	6 – 9	LIBID + 3%
Fixed interest hedge fund	4.5	1 - 9	6 -10	LIBID + 3%
Property	8	5 -10	5 - 9	IPD and absolute return
Private equity	8	2 -10	8 -12	Absolute return
Hedge funds	10	8- 12	6 -12	LIBID + 4%
Infrastructure	2	1 - 7	10 – 20	Absolute return
Global Tactical Asset Allocation	4	2 – 6	15 – 20	FTSE All share
Cash	1	0 - 5	3 - 7	Cash

15 For UK equities, the in-house manager holds stocks in proportion to their weighting in the FTSE 350 Index (known as index tracking, or passive, management). Index tracking has been chosen because the average manager has, in the longer term underperformed the UK index, and in-house management is less expensive than external active management. For overseas equities, the manager has complete discretion in selecting between markets. Active management has been chosen because there are opportunities for the manager to outperform through stock and sector selection. For fixed interest, the manager has discretion to change the asset allocation within ranges, using other bond-like instruments as permitted. Active management has been chosen to allow opportunities for improved performance through stock selection and asset allocation. For property, UK Small companies, hedge funds, currency and private equity, the fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

16 Asset allocation is reviewed regularly to consider new opportunities that may arise and anticipated returns. The expected returns detailed above are taken from forecasts made by the actuary and investment managers. It is anticipated that equities will not outperform by the same margins seen in the twenty-year period

1980 – 1999, but it is expected that the asset class will outperform gilts. The next major review of asset allocation is expected to be in June 2011, but will be considered at least annually.

Investment Manager Arrangements

17 The review of fund management arrangements undertaken in 1999 concluded that the optimum investment arrangement is to employ managers implementing a specialist 'core / satellite' model. The 'core' will be UK equities, managed in-house on an index-tracking basis. The other managers – the 'satellites' – will be specialists in their markets concentrating on the outperformance of particular benchmarks. It is expected that this approach will yield the best returns at the lowest cost and the least risk.

18 The current managers are:

UK Equities	In house
Global Equities	AllianceBernstein Institutional Investment Management
Fixed interest	Henderson Global Investors
Property	Aviva Investors
UK Smaller companies	Gartmore Investment Management
Private Equity	London Fund Managers
	Capital Dynamics
Hedge Funds	Fauchier Partners
GTAA	Mellon Global
Infrastructure	Alinda Partners

19 Management fees are calculated on the basis of a percentage of funds under management, rather than a performance basis, with the exception of the fixed interest, private equity, hedge fund and currency managers. This basis has been chosen because basic fees should be sufficient to incentivise managers in traditional areas, but performance fees are felt to be necessary to align interests in other areas.

Investment Restrictions

20 The Local Government Pension Scheme states that the authority shall have regard both to the diversification and the suitability of investments. A number of investment regulations are also applicable to the fund. These were amended in 2003 to allow each fund more discretion over investment policy by allowing a range of limits within an overall ceiling. The Pension Fund Sub Committee has decided that the Brent fund may not:

a) invest more than 10% of the fund in unlisted securities.

b) invest more than 10% of the fund in a single holding (unchanged), or more than 25% 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) contribute more than 5% of the fund to any single partnership.

e) contribute more than 15% of the fund to partnerships.

21 The reasons for this approach are:

a) Diversification. The Myners report has highlighted the need to access a wider range of asset classes both to spread risk and add to returns. The main alternative asset classes under consideration by pension funds are private equity, hedge funds, infrastucture and property. The main route for access to private equity and hedge funds is through partnerships (sometimes known as 'fund of funds').

b) The Brent fund has committed 8% of assets to private equity through partnerships, 5% to infrastructure and 10% to hedge funds. This may increase in future as experience of private equity and hedge funds develop.

22 The decision to increase limits will apply for ten years and complies with the new Investment Regulations. However, asset allocation decisions are regularly reviewed and the suitability of the limits will be subject to reconsideration at least every three years as part of the asset allocation review.

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

a) undertake stocklending arrangements.

b) invest in any in-house fund without prior consent.

c) exceed the limits set out in the asset allocation ranges detailed in the benchmark.

d) borrow.

e) Engage in underwriting or sub-underwriting on behalf of the fund.

f) Enter into soft commission arrangements, by which business is directed to brokers in exchange for other services such as research or systems.

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

25 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.

Manager Discretion

26 With the exception of the in-house portfolio, 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.

Monitoring activity and performance – Managers, adviser and trustees

27 Local Government Pension Scheme 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.

28 WM is an independent performance monitoring agency that measures the performance of the total fund and the individual managers against both the benchmark and peer group funds. Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms benchmarks over a 'substantial' period (defined as six quarters) a review of the mandate will be considered.

29 The Director of Finance and Corporate Resources 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 Director of Finance and Corporate Resources detailing activity and investment performance.

30 The Sub Committee will review the performance of the pension fund adviser on a triennial basis, looking at the quality of advice and inputs made.

31 The 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 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.

Review of the Implementation of Investment Policy

32 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.

33 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.

34 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 six successive quarters will automatically lead to a review of the mandate.

Corporate Governance and Socially Responsible Investment

35 The Pension Fund Investment Sub-Committee has agreed the following policies:

a) A corporate governance policy for UK equities is attached in Appendix 1. The fund will use an agency service (RREV) to support regular voting at Annual and Extraordinary General Meetings.

b) The Global equities manager, AllianceBernstein, will vote on behalf of the fund on corporate governance issues overseas. The manager supports the fundamental principles expressed in the Shareholder Bill of Rights adopted by the Council of Institutional Investors, but also has a close knowledge of overseas companies that will facilitate careful consideration of individual issues. AllianceBernstein has discretion to invest in the best economic interests of the fund. The manager does not make moral judgements on individual stocks, but seeks to avoid companies where ethical or environmental concerns are not fully recognised in the rating of the stock.

c) With regard to socially responsible investment in UK, the fund will use an advisory service (the Local Authority Pension Fund Forum) to facilitate constructive discussions (known as ‘engagement’) with UK companies where environmental, social or other long-term issues may impact on the value of a company. The fund will continue to hold all relevant stocks within the FTSE 350 but will seek to use its position as a shareholder to influence policies.

Representation

36 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.

Communication

37 Considerable progress has been made in communicating with employers and employees. Developments include:-

a) a web site
b) annual benefit statements to active members and deferred pensioners
c) regular newsletters for active members and pensioners
d) regular employer updates on fund developments and scheme changes
e) A Funding Strategy Statement, setting out how the Fund plans to meet future liabilities.
f) Annual reports to both employers and employees
g) A biennial employee forum
h) Seminars to explain the scheme and proposed changes, including Induction courses and Pre-Retirement seminars.

38 It is also considered to be important that stakeholders are aware of the service standards set for responses by both Brent Council and the London Pension Fund Authority, the council's administration provider. The following service standards should be expected:-

Type of work	**Maximum Turnaround Time (working days)**
Letters answered or acknowledged	5
Estimates of benefits	5
Notifications to new pensioners	10
Transfer value quotations	20
Preserved benefits – calculate and notify	10
New starters – membership confirmation	10

Treasury Policy

39 The Pension Fund maintains cash balances both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit cash balances with the council's banker, the Royal Bank of Scotland, at an appropriate rate.

MYNERS REVIEW OF INSTITUTIONAL INVESTMENT IN UK

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
1	**Effective decision making – trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	
	Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.	Councillors are supported by the Director of Finance and his staff, and have appointed an independent advisor to improve expertise.
	It is good practice for trustee boards to have an investment sub committee to provide the appropriate focus.	As most of the work of the pension fund committee is concerned with investment, a sub committee is unnecessary.
	Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward looking business plan.	Councillors are offered on-going training to ensure that they are trained to the appropriate standard. The Chair of the Sub Committee is responsible for ensuring that councillors have appropriate skills. Members are considering the CIPFA Knowledge and Skills Framework to assist them in raising standards. Members complete a questionnaire to assess whether skill 'gaps' and learning requirements. A business plan, covering both one and three years, is prepared annually.

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
2	**Clear objectives – trustees should set out an overall investment objectives(s) for the fund that takes account of the scheme's liabilities, the strength of the employer's covenant as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.**	
	Trustees should set out an overall objective for the fund that: • represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employers and employees; and • takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.	The overall objective for the fund (a real return of 5% per annum) has been set after an asset allocation review and the most recent Actuarial Valuation (2007), as well as the Funding Strategy Statement. The objective takes into account contributions, likely market returns and appetite for risk.
	The administering authority should consider the advisability of investing in a wide variety of investments, and the suitability of particular investments and types of investment. The committee should demonstrate that it has sought proper advice on appropriate investment objectives. Advisers and managers should be appointed in open competition and should be set clear strategic investment performance objectives by which they will be measured.	Brent has considered the suitability of a wide variety of investments and has diversified the fund significantly. Brent has appointed a number of managers and an independent investment adviser. Managers have clear investment objectives over both the short and medium terms, and performance / approach are reviewed regularly. The quality of the investment adviser's advice is assessed on a three year basis when reappointment / replacement are considered.
3	**Risk and liabilities – in setting and reviewing their investment strategy, trustees should take into account the form and structure of the liabilities. These include the implications for local tax payers, the strength of**	

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
	the covenant for participating employers, the risk of their default and longevity risk.	
	The overall investment objective should take into account the committee's attitude to risk and underperformance. The committee should set an overall investment objective that is necessary to meet liabilities and takes account of the committee's attitude to risk, including underperformance due to market conditions. Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to market indexes.	Strategic asset allocation is agreed every three years after a study of opportunities, liabilities and potential risk / rewards. Asset allocation is also reviewed formally on an annual basis, and considers all major asset classes. The current asset allocation has considered all major asset classes and the individual characteristics of the fund.
4	**Performance assessment – trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision making body and report on this to scheme members.**	Agreed
	Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: • An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances; • The manager's approach in attempting to achieve the objective; and	Management agreements are in place and cover the issues discussed.
	• Clear timescale(s) of measurement and evaluation,	Regular communication and meetings with fund managers

Myners' Six Principles of Investment	Brent Fund Response to the Principles
such that a mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	will ensure that matters of concern are discussed. However, mandates may be terminated for a variety of reasons including volatile or poor performance.
	Agreed
Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision making delegated to advisers and managers.	Fund performance is measured by WM. The Sub-Committee examines its own decision making by regular review of investment performance and other key areas. The performance of advisers is also reviewed, and managers' decisions are reviewed quarterly.
The committee should set out its expectations of its own performance in its business plan, particularly such matters as:- a) Attainment of standards as set down by CIPFA in its Knowledge and Skills framework. b) Achievement of required training outcomes.	These are included in the Annual Report and Accounts.
5 **Responsible ownership – Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.**	Agreed
	The Brent Fund has joined the Local Authority Pension Fund Forum to use collective size to influence companies to take action on environmental, social and governance issues. Overseas, the global equity manager votes and engages with companies as they feel appropriate.

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
6	**Transparency and reporting – trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risk, including performance against stated objectives. Trustees should report periodically to members on the discharge of such responsibilities.**	Agreed
	The Statement of Investment Principles should set out: • who is taking which decisions and why this structure has been selected; • the fund's investment objective; • the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; • the mandates given to all advisers and managers; and • the nature of the fee structures in place for all advisors and managers, and why this set of structures has been selected.	
	Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisors	There is regular communication with employers and employees. The SIP is published, both on the web-site and

Myners' Six Principles of Investment	Brent Fund Response to the Principles
and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.	sent to employers. Key information on performance is published annually.
The authority must also publish a governance compliance statement, a pension fund annual report, a communications strategy and a Funding Strategy Statement.	Brent has published the requisite statements, policies and strategies.

LONDON BOROUGH OF BRENT PENSION FUND

CORPORATE GOVERNANCE POLICIES

General

The Fund supports the Combined Code issued by the Committee on Corporate Governance and will vote accordingly at Annual and Extraordinary General Meetings.

Companies

Directors

- **The Board**

  Every company should be headed by an effective board that is collectively responsible for the success of the company.

  The board should meet regularly to discharge its duties effectively. There should be a formal schedule of matters reserved for its decision.

  The annual report should include a statement of how the board operates. The annual report should identify the chairman, deputy chairman, chief executive, senior independent director and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

  Where directors have concerns that cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes.

- **Chairman and Chief Executive**

  The roles of the chairman and the chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

  A chief executive should not go on to be chairman of the same company. If the board decides that a chief executive should become chairman, the board should consult major shareholders in advance giving reasons at the time of the appointment and in the next annual report.

- **Board Balance and Independence**

  The board should include a balance of executive and non-executive directors (particularly independent non-executives) such that no individual or small group of individuals can dominate the board’s decision taking.

  At least half the board (excluding the chairman) should comprise of non-executive directors determined by the board to be independent.

  The board should appoint one of the independent non-executive directors to be the senior independent director.

- **Appointments to the Board**

  There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

  Board appointments should be made on merit and against objective criteria.

  Appointees must have enough time available to devote to the job.

  The board should ensure that plans are in place for orderly succession for appointments to the board and senior management in order to maintain an appropriate balance of skills and experience.

  There should be a Nomination Committee to lead the process for board appointments and make recommendations to the board.
  A majority of the members of the Nomination Committee should be independent non-executive directors.
  The chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor to the chairmanship.
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- **Information and Professional Development**

  The chairman is responsible for ensuring that the directors receive accurate, timely and clear information.

  The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.

  The company secretary should be responsible for advising the board through the chairman on all governance matters.
  Both the appointment and removal of the company secretary should be a matter for the board as a whole.

- **Performance Evaluation**

  The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

- **Re-election**

  All directors should be submitted for re-election at regular intervals subject to continued satisfactory performance.

Remuneration

The Level and Make-up of Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose.

The remuneration committee should be sensitive to pay and employment conditions throughout the group, especially when determining annual salary increases.

- **Remuneration Policy**

  Levels of remuneration for non-executive directors should reflect the time, commitment and responsibilities of the role.
  Remuneration for non-executive directors should not include share options.

- **Service Contracts and Compensation**

  The remuneration committee should consider what compensation commitments (including pension contributions and other elements) directors' terms of appointment would entail if terminated early.

  Notice or contract periods should be set at one year or less.

Accountability and Audit

Financial Reporting

The Directors should explain in the annual report their responsibility for preparing accounts and there should be a statement by the auditors about their reporting responsibilities.

Internal Control

The board should maintain a sound system of internal control to safeguard shareholders' investment.
The board should review and report on the internal controls at least annually.

Audit Committee and Auditors

The board should establish an audit committee of at least three independent non-executive directors. At least one member of the audit committee should have recent and relevant financial experience.

The audit committee should monitor and review the effectiveness of the internal audit activities.

The audit committee should have primary responsibility for recommending the appointment, reappointment and removal of the external auditors.

<u>Relations with Shareholders</u>

Dialogue with Institutional Shareholders

The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Chairman should maintain sufficient contact with major shareholders to understand their issues and concerns, and communicate these to the board.

Constructive Use of the AGM

The board should use the AGM to communicate with investors and to encourage their participation.

The company should ensure that votes cast are properly received and recorded.

The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer the questions at the AGM and for all directors to attend.

The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

<u>Institutional Shareholders</u>

Dialogue with Companies

Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives.

Evaluation of Governance Disclosures

Institutional shareholders should consider carefully explanations given for departure from this code and make reasoned judgments in each case. They should bear in mind the size and complexity of the company and the nature of the risks and challenges it faces.

Shareholder Voting

Institutional shareholders have a responsibility to make considered use of their votes, and to ensure that their voting intentions are put into practice.