BRENT COUNCIL	**Pension Fund Sub Committee** **30 November 2010** **Report from the Director of** **Finance and Corporate Services**
	Wards Affected: ALL
Brent Pension Fund – socially responsible investment	

1. SUMMARY

1.1 This report reviews Socially Responsible Investment (SRI) policies for the Brent Pension Fund.

2. RECOMMENDATIONS

2.1 Members are asked to confirm their existing investment policies as set out in paragraph 3.3 of this report and in the Statement of Investment Principles.

3 DETAIL

Background – Investment in tobacco

3.1 The Health Partnerships Overview and Scrutiny Committee met on 14th October and made a recommendation to the Pension Fund Sub Committee as follows:-

‘The Health Partnerships Overview and Scrutiny Committee recommends that the Brent Pension Fund Sub Committee reconsiders the investments that Brent Council has in tobacco firms. The overview and scrutiny committee does not believe that the council should be investing pension fund money in companies that make profits at the expense of peoples’ health and that it contradicts the council’s work to promote tobacco control and smoking cessation. The committee is encouraged that other council’s, such as Harrow, have taken a decision to disinvest from these firms and hopes that the council can follow their lead, especially as Brent is launching its Tobacco Control Strategy on 29th November.’

3.2 The Chief Executive, Gareth Daniel, has also received a letter from NHS Brent urging the reconsideration of investment in tobacco stocks.

Background – Corporate governance and SRI

3.3 The background to the development of sub committee policies on corporate governance and SRI has been controversial. In order to confirm that the management of the pension fund was primarily concerned with generating the best investment returns within acceptable risks, the Council meeting of 13th February 1996 agreed that:-

'The council re-confirms its policy of non-political or administrative interference with the investment manager's investment decisions or involvement with companies in which the fund managers have acquired shares on behalf of the fund.'

In other words, the fund managers will take investment decisions on the basis of the best interests of the Fund, which is held for the best interest of beneficiaries.

3.4 The key background to the council's decision were poor experiences in the 1980's and the principles set out in the Cowan vs Scargill judgement in 1985 (the Megarry judgement). These included:-

a) Trustees are under a duty to exercise their powers in the best interests of the present and future beneficiaries. The best interests will usually be financial interests, unless the trust is a charitable foundation with a particular moral outlook.

b) Trustees must put aside their own personal interests and views and not exercise their powers for any hidden motive.

c) Trustees must take such care as would the 'ordinary prudent person'.

d) Trustees must consider the need to diversify the investments.

3.5 As part of the adoption of the Statement of Investment Principles (SIP) in 2000, the Sub Committee agreed to adopt the 1998 Combined Code on Corporate Governance and to engage with UK companies on corporate governance and SRI issues. The sub committee agreed that soundly managed companies were more likely to comply with best practice in corporate governance and to consider long-term and employment / environmental / sustainable issues (SRI issues) as part of their planning process. As well as voting at Annual General Meetings and Extraordinary General Meetings to support sound governance practices, the Fund joined the Local Authority Pension Fund Forum (LAPFF) to engage with companies and research SRI issues using Pensions Investment Research Consultants (PIRC). The LAPFF has a membership of forty nine local authority funds managing around £80b, giving it a powerful voice in engaging with companies and other relevant groups such as the Association of British Insurers and the Fund Managers Association. The LAPFF has engaged and reported on such issues as the environment, child labour and corporate governance. It was felt that one fund alone had neither the expertise nor the economic weight to influence large companies.

3.6 It has become apparent that the number of SRI mandates in local authority funds has reduced as performance targets have not been met. Investment performance is difficult, and it has been accepted that allowing managers wide discretion should encourage improved performance. However, many funds have integrated SRI principles into their investment agreements to ensure that long-term environmental, social and governmental issues are addressed. There has been support for this approach from the United Nations sponsored Freshfields, Bruckhaus, Deringer opinion that 'integrating ESG (environmental, social and corporate governance) considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.'

Doubt has been cast on the validity of the opinion in the light of the Megarry judgement, but it is apparent that consideration of SRI issues can improve investment analysis. In particular, the risks involved in a large weighting to oil stocks were shown in the recent performance of BP shares when their oil rig exploded in the Gulf of Mexico. However, the questions here are more financial than ethical – similar questions have been raised with AllianceBernstein over their exposure to financial stocks in 2008.

3.7 Other organisations contact Brent Council periodically to raise other SRI issues. In particular, the Campaign Against the Arms Trade (CATT) has previously asked for details of investment in companies producing weapons. Other areas could include alcohol, oil, drug testing, foreign regimes, investment only in UK etc. These could be very subjective areas.

3.8 At their meeting on 20th February 2008, the Sub Committee reconfirmed its policy of non-political or administrative interference with managers' investment decisions. I attach the SIP as Appendix 1. Paragraph 35 sets out policy with regard to Corporate Governance and Socially Responsible Investment.

3.9 Investment in tobacco companies has been highly successful over the years. At present, the Fund invests in two UK tobacco companies – the value of the investment is around £2.5m (though this will reduce as UK equity exposure is reduced as part of the change to asset allocation agreed on September 29th 2010).

3.10 Contrary to the Health Partnerships Overview and Scrutiny Committee assertion that Harrow has disinvested from tobacco stocks, no such action has been taken. Investments continue to be made through pooled funds, with no ethical constraints on managers' activities. Like Brent, Harrow is a member of LAPFF. Officers at Harrow have committed to report on ESG issues in 2011.

3.11 I have circulated other London Boroughs to ascertain their approaches, and have received replies from fourteen. From those that have replied, it appears that most take a similar approach to that followed by Brent – that the fund should be invested in the best financial interests of the members, but that managers should take ESG (SRI) issues into account in their screening of stocks and engage with companies. As with Brent, some of the boroughs used LAPFF to research ESG issues and engage with companies. In most cases, managers are not restricted in their choice of stocks. Two of the boroughs that replied were prepared to exclude 'unethical' stocks, or would encourage their managers to exclude, but either with no loss of performance or only after considering the impact on performance.

Options for action

3.11 An option might be for the UK in-house fund to track the FTSE4Good UK index, which excludes such sectors as manufacturers of nuclear weapon components, tobacco and manufacturers of weapon systems. The index is restricted to the largest 50 stocks that comply with criteria, whereas the Brent Fund currently tracks the FTSE350.

3.12 However, it is recommended that no further action is taken for the reasons given in paragraphs 3.3 – 3.9 and that members confirm their previous policy.

4. FINANCIAL IMPLICATIONS

These have been covered within the report.

5 DIVERSITY IMPLICATIONS

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

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

7.1 In the case of *Cowan v Scargill and Others [1985] Ch. 270*, Vice Chancellor Sir Robert Megarry laid down a number of principles, which include the following:

(1) The duty of trustees to exercise their powers in the best interests of the present and future beneficiaries of the trust and this duty towards their beneficiaries is paramount.

(2) In considering what investments to make, trustees must put on one side their own personal interests and views.

(3) The benefit of the beneficiaries which a trustee must make his paramount concern does not necessarily mean solely their financial benefit. However, the Judge added that under a trust for the provision of financial benefits, the burden would rest heavily on the trustee who asserts that it is for the benefit of the beneficiaries as whole to receive less by reason of the exclusion of some of the possibly more profitable forms of investment. The Judge said that such circumstances would be rare and if such circumstances did not arise, the paramount duty of the trustee would normally be to provide the greatest financial benefit for the present and future beneficiaries.

(4) The required standard required of a trustee in exercising his powers of investment is that he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide. This includes the duty to take professional advice on matters which the trustee does not understand, such as the making of investments and, on receiving that advice, to act with the same degree of prudence.

(5) Trustees have a duty to consider the need for diversification of investments.

(6) The law relating to trusts is applicable to pension funds.

7.2 In the case of *Martin v City of Edinburgh District Council [1988] SLT 329*, Lord Murray ruled that the members of the Council, as trustees, when deciding to withdraw investments from companies which had links with South Africa, had not applied their minds separately and specifically to the question whether the changes in investments would be in the best interests of the beneficiaries of the trusts and that as a result, they were in breach of trust. In this case, the trustees did not consider or take professional advice on whether withdrawing investment from companies which had links with South Africa would be in the interests of the beneficiaries of the trusts. In that case, Lord Murray made the following observation: “I accept that the most profitable investment of funds is one of a number of matters which trustees have to consider. But I cannot conceive that trustees have an unqualified duty … simply to invest trust funds in the most profitable investment available. To accept that without qualification would, in my view, involve substituting the discretion of financial advisors for the discretion of trustees". Lord Murray also said that an individual trustee must recognise that he has certain preferences, commitments or principles but none the less do his best to exercise fair and impartial judgment on the merits of the issue before him.

7.3 In the case of *Bishop of Oxford v (Church Commissioners) [1993] 2 All ER 300*, Vice Chancellor Nicholls accepted that there were at least two exceptions to the duty to maximise financial returns, but they relate mainly to charities. The first exception is where the aims of the charity and objects of investment are in conflict and the second exception is where particular investments detract from the charity's work. In both exceptions, the trustees must weigh the extent of financial loss from offended supporters and the financial risk of exclusion. It is not clear from the case law whether such principles set out in this case apply to all investment trusts such as pension funds.

7.4 There are a number of other requirements laid down by statute. Under section 4 of the Pensions Act 1995 ("the 1995 Act") and subordinate regulations, the trustees' powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Under section 4(2)(a) of the 1995 Act, the assets must be invested in the best interests of members and beneficiaries. Under section 2(2)(a) of the 1995 Act, the assets must be properly diversified. Under section 4(7) of the 1995 Act, the trustees must obtain proper advice when preparing their statement of investment principles and under section 36(5) of the 1995 Act, they must act in accordance with those principles as far as practicable.

7.5 There are also statutory requirements laid down under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) ("the 2009 Regulations"). Under regulation 11 of the 2009 Regulations, a local authority administering a pension fund must formulate a policy for the investment of its fund money, must invest in accordance with its investment policy any fund money that is not needed immediately to make payments from the fund, obtain proper advice at reasonable intervals about its investments and must consider such advice in taking any steps in relation to investments. Subject to these conditions, a local authority may vary its investments. Also under regulation 11, a local authority's investment policy must be formulated with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments.

7.6 Under regulation 12 of the 2009 Regulations, after consultation with such persons as they consider appropriate, a local authority administering pension funds must prepare, maintain and publish a written statement of the principles (known as Statement of Investment Principles – SIP) governing its decisions about the investment of fund money. The SIP must cover the local authority's investment policy on various matters, including the extent, if at all, to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The SIP must be reviewed, and if necessary revised, by the local authority from time to and time and in the case of any material change in the local authority's policy on matters referred to in regulation 12(2), before the end of a period of six months beginning with the date of that change. A copy of the Council's SIP is attached as Appendix 1 to this report and the Council's policy on Socially Responsible Investment (SRI) is set out in paragraph 35 thereof.

8 BACKGROUND

Pension Fund Sub Committee – Statement of Investment Principles and Corporate Governance Policy (15th February and 20th June 2000)
Pension Fund Sub Committee – Review of Corporate Governance and Socially Responsible Investment (24th February 2004)
Pension Fund Sub Committee – Brent Pension Fund – Review of the Statement of Investment Principles and Engagement Policy (20th February 2008)
Letter from NHS Brent to the Chief Executive (16th November 2010)

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

Clive Heaphy
Director of Finance and Corporate Services

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.