BRENT PENSION FUND

REPORT 2009

Index

Message from the chair

Brent Pension Fund Sub Committee

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

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

a) To increase exposure to hedge fund of funds (where the manager invests in a number of funds run by other managers) from 5 per cent to 10 per cent of the fund, acknowledging that this asset class should yield steady results in future, avoiding the sharp falls that have been seen in equity markets. Although hedge fund returns were reduced by the market turmoil in September / October 2008, when Lehman (a major provider of market loans) collapsed, some hedge funds have shown themselves adept at avoiding market risks.

b) To invest 5 per cent of the fund in infrastructure, either through a manager or through a fund of funds. Research has indicated that infrastructure assets – roads, bridges, hospitals etc – can yield steady inflation linked returns over a long period. It is also apparent that different managers employ varying strategies, investing in different markets or designing, building and managing assets.

The poor market background has resulted in the fund losing value during the year. The fund returned -26 per cent, against the benchmark of -21 per cent, and the average local authority fund -19.9 per cent. Managers underperformed in four main areas:

a) Global equities, where the manager invested heavily in financial stocks that collapsed in value as bad debts and leverage drove various institutions into nationalisation or bankruptcy. The manager also over weighted exposure to companies that produce commodities – these suffered as prices fell.

b) Fixed interest. The portfolio is divided between 'core' – government and corporate bonds – and 'satellite' – absolute return investments that invest in emerging market debt, secured loans and fixed interest hedge funds. The satellite portfolio suffered as the market repriced risk and as some 'forced sellers', often hedge funds and banks, sold liquid secured loans. The yields on the secured loans rose to an average of 20 per cent per annum as the market assumed massive defaults.

c) Currency. The manager has taken views on the relative value of various currencies based on long term measures of fundamental value. Unfortunately, in a volatile market, currencies have not followed long term trends. Strong currencies have not been those with high interest rates, but commodity and safe haven currencies. It was decided in December 2008 to terminate the mandate.

d) Global Tactical Asset Allocation (GTAA). Ten years ago the Brent Pension Fund was managed by one manager who took asset allocations for all assets based on the relative value of each market. Since then, the Brent Fund has switched to invest in specialist managers who only look after specific markets or asset classes. Mellon was appointed in 2007 to manage a fund that sought to identify how expensive / cheap equity, bond or currency markets were against each other, as well as how expensive / cheap individual country markets had become. The currency element underperformed in line with c) above, while the manager also over weighted equities against bonds

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

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

Councillor George Crane
Chair, Brent Pension Fund Sub Committee

Brent Pension Fund responsibilities

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

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

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

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

Co-opted members

(North West London College)	Mr. A. Patel
(GMBU)	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund Responsibilities – Investment Sub Committee (P4)
As set out in the scheme of governance, only councillors have voting rights because management of the fund is part of their legal responsibility. The Sub Committee takes executive decisions.

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

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

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

The following houses manage individual portfolios:

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

Custodians
The fund uses two custodians for segregated portfolios as follows:

BNP Paribas Security Services (Fixed Interest) – Mark Fulwood

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

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

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

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

Director of Finance & Corporate Resources
Duncan McLeod

Head of Exchequer & Investment
Martin Spriggs 020 8937 1472

Principal Investment Officer
Bina Chauhan-Wild 020 8937 1473

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

Head of Payroll and Pensions
Barry Hilder 020 8937 3180

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

Advice and benefit calculations
London Pensions Fund Authority 020 7369 6249

Payment of pensions
SERCO

The Registrar of Occupational Pension Schemes
PO Box INN, Newcastle-Upon-Tyne, NE99 INN

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

Legal Advisor
The London Borough of Brent Solicitor is Terry Osborne.

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

Auditor
The fund is audited by the Audit commission.

Actuarial valuation

Introduction

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

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.

2. The valuation as at 31 March 2007 showed that the funding ratio of the fund had improved since the previous valuation with the market value of the fund's assets at that date (of £499 million) covering 72 per cent of the liabilities allowing, in the case of current contributors to the fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.

3. The valuation also showed that the required level of contributions to be paid to the fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out below:

   - 14.8 per cent of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

   Plus

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

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

   - The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.

   - Changes were made consistent with the Finance Act 2004.

   - A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

4. The majority of employers participating in the fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the administering authority.

5. The rates of contributions payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27 March 2008 which is appended to our report of the same date on the actuarial valuation.

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

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

7. The main actuarial assumptions were as follows:

Discount rate for periods

Scheduled bodies

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

Admitted bodies

In service discount rate:	6.20% a year
Left service discount rate:	5.20% a year
Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

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

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

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

Table A: Employer Contribution Rates

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

List of scheduled and admitted bodies

Scheduled bodies

London Borough of Brent
Alperton Community School
ARK Academy
Avigdor Hirsch Torah Temimah School
Cardinal Hinsley High School
Claremont High School
College of North West London
Brent Housing Partnership
Convent of Jesus & Mary RC Language College
Capital City Academy
The Copland Community School & Technology Centre
JFS
John Kelly Boys Technology College
John Kelly Girls Technology College
Kilburn Park School
Kingsbury High School
Islamia Primary School
Malorees Junior School
North West London Jewish Day School
Oakington Manor Primary School
Preston Manor High School
Queens Park Community School
St Gregory's RC School
St Joseph's RC School

Admitted bodies: contributing

Age Concern
Brent Association of Disabled People
Brent Society for Mentally Handicapped Children (Mencap)
Churchill contracts Ltd (Day centre)
Goldsborough Homecare and Nursing Services Ltd
Local Employment Access Project
National Autistic Society
Sudbury Neighbourhood Centre
Jarvis Workspace FM LTD
Wetton Cleaning Services and North Grounds Maintenance
Wetton Cleaning Services and South Grounds Maintenance

Admitted bodies : non-contributing

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

Investment report for the year ended March 2009

Economic background

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

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

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

In November, an injection of capital into Citigroup by the US Treasury and news that the then New York Federal Reserve President Tim Geithner was to be Treasury Secretary in the Obama administration, briefly drove markets higher in December with international returns boosted by the decline in the value of sterling. However, the rally was quickly stifled early in 2009 as investors were torn between news of enhanced government bail outs and a deteriorating financial and economic backdrop. Volatility remained at elevated levels as financials led the market down.

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

Bond markets

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

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

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

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

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

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

Other markets

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

a) Although overseas equities gained some protection from the collapse in the value of sterling, equities as a whole fell in value. UK equities fell by around 30 per cent, while USA equities fell by 15 per cent and European equities by 31 per cent. Dividend cuts have now become frequent as companies try to protect their cash flow.

b) Property had become overvalued in the loose credit conditions since 2000, so that property yields (rents) had fallen to 4 per cent / 5 per cent. Capital values have fallen by around 40 per cent, so that yields have risen sharply. However, rental incomes are falling as banks, shops and other companies reduce space or collapse.

c) Hedge funds also suffered in the severe market volatility – funds could not hedge (insure against) possible losses, and suffered as equity markets fell or shorting rules were imposed. September and October 2008 were particularly severe as some funds were forced to seek new credit facilities following the collapse of Lehmans.

d) Private equity values have fallen as exit routes into public markets closed and prices fell.

Strategy and outlook

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

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

Pension Fund – general information

Fund Income

The fund receives income from the following sources:

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

Table B: Fund membership and contributions 2005 to 2009

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

Table C: The total administrative cost of the fund

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

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

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

Risk management

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

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

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

Financial performance

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

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

Investments

Administration of the fund

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

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

Sales and purchases

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

Administration

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

LPFA Report

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

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

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

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

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

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

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

Mike Allen
Assistant Director Member Services

Table E: Asset allocation changes over the year

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

Asset Allocation and performance

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

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

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

Table F: The funds largest UK Equity holdings

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

Table G: Asset class

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

Investments continued

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

Table H: Investment Returns 2008/09

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

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

- The UK Small Companies manager outperformed as AIM companies outperformed FTSE companies. Private equity enjoyed a good first half-year as credit remained cheap, but falling public equity markets indicate difficult times ahead.
- The overseas equity manager underperformed as a result of overweighting financial companies and materials that lost value in the sub prime loans and credit crisis and ensuing recession.
- The fixed interest manager suffered as the credit crunch saw the value of secured loans marked down as buyers vanished.
- The currency manager underperformed as the market rewarded currencies that were linked to commodity producers, fundamentally undervalued currencies continued to fall, and as economic volatility was high.
- The global tactical asset allocation manager underperformed for the currency reasons above, but also took the view that currency markets would outperform bonds, and that the Japanese market looked good value.

Table I: Investment returns in individual markets

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

Table J Individual managers performance over one and three years

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

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

Table K: Long term performance of the fund

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

Topical Information

Statement of Investment Principles

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

Corporate Governance Policy

The UK equity fund has holdings in all the major companies in the FTSE 350. Being an Index Tracking fund, these holdings will be maintained over the long-term unless there are major changes in the status of individual companies. It is therefore important that the fund uses its vote at Annual General Meetings and Extraordinary General Meetings to ensure that the proper procedures are in place to protect the interests of shareholders. The Pension Fund Sub Committee has agreed policies that will guide the use of votes, and also uses the RREV voting service to inform officers on salient issues. The fund has delegated voting on overseas issues to the fund manager, Bank of Ireland Asset Management.

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

New developments

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

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

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

* includes 7 deaths in service

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

(Table L above)

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

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

Retirements in 2008/09

(figures for 2007/08 in brackets)

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

Late Employer Contributions

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

Service Level Agreements with employers

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

Brent Council Pension Fund website

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

Internal Disputes Resolution Procedure (IDRP)

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

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

Funding strategy statement (FSS – attached)

The FSS was introduced in 2004:-

- to improve local transparency, accountability and understanding of the long-term management of employers' pension liabilities

- to link this process with the Statement of Investment Principles and Fund Valuation requirements.

Socially responsible investment

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

Governance of the Brent Fund

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

Added years and additional years voluntary contributions (AVCs)

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

Conflicts of interest

Conflicts of interest are managed as follows:-

a) Prior to taking up their membership of the Pension Fund Sub Committee, members are given training on their duties. It is emphasised that members are required to act in the interests of the pension fund members and should put aside personal interests and considerations.

b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Sub Committee meeting.

c) A number of different interests and advisers are available to the Sub Committee. First, the actuary must advise on the solvency of the Fund and employer contribution rates. Second, officers and the Independent Adviser are available to give independent advice. Third, both employee groups and the largest employers are represented on the Sub Committee. Finally, meetings are open to the public and minutes and reports are published.

Compliance with best investment practice (the Myners' Report)

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

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

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

London Borough of Brent Pension Fund
Accounting policies and notes to the accounts March 2009

1. Basis of preparation

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

2. Accounting policies

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

A Statements of accounting policies

(i) The pension costs that are charged to the Council's accounts in respect of its employees are equal to the contributions paid to the pension fund for those employees.

(ii) Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. These costs have been determined on the basis of contribution rates that are set to meet 100 per cent of the liabilities of the Pension Fund, in accordance with relevant Government Regulations.

B Basis of accounting

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

C Asset valuation principles

(i) UK quoted securities are valued at bid prices as at the close of business on the 31 March or at the date of the last pricing of the security.

(ii) Overseas quoted securities are valued at bid price on the 31st March, translated into sterling in accordance with accounting policy.

(iii) UK unquoted unit trusts and other unquoted securities including hedge funds valued at the external manager's valuation.

(iv) Fixed interest securities valued at market value excluding the value of interest accruing on the securities.

D Income from investments

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

E Foreign currencies

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

F Transfer values to and from the fund

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

London Borough of Brent Pension Fund
Accounting policies and notes to the accounts March 2009

continued

3. Notes to the accounts

A Ex-gratia payments

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

B Taxation

(i) Investments

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

ii) Compounded pensions

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

C Employers' contributions

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

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

D Statement of investment principles

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

E Related party's transactions

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

F The administrative authority's responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of their officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Resources.

- to manage business to secure economic, efficient and effective use of resources and safeguard assets.

G Responsibilities of the Director of Finance and Corporate Resources

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

Duncan McLeod
Director of Finance and Corporate Resources

3 Contributions receivable

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

	2007/2008 £000s ongoing	2007/2008 £000s deficit	2008/2009 £000s ongoing	2008/2009 £000s deficit	2007/2008 £000s	2008/2009 £000s
Employers						
Brent	14,313	10,735	16,129	8,828	25,047	24,957
Scheduled	1,546	750	1,763	322	2,297	2,085
Admitted	814	285	730	330	1,103	1,061
Members						
Brent					6,246	7,178
Scheduled					705	810
Admitted					294	313
Additional voluntary contributions					196	225
					35,888	**36,629**

4 Transfers in

Individual Transfers in from other schemes	**2,964**	**1,389**

5 Benefits payable

On retirement or death		
Pensions		
Brent	17,981	19,129
Scheduled	569	645
Admitted	586	690
Lump sum retirement benefits		
Brent	2,473	2,812
Scheduled	501	222
Admitted	179	306
Lum sum death benefits		
Brent	199	423
Scheduled	43	0
Admitted	0	0
	22,531	**24,227**

6 Payments to and on account of leavers

Refund to members leaving service	19	16
Individual transfers to other schemes	3,110	3,677
	3,129	**3,693**

7 Administration expenses

Administration and processing	951	982
Actuarial fees	58	45
Audit fees	42	43
	1,051	**1,070**

8 Investment Income

Dividend income equities	8,874	7,640
Income from fixed interest securities	3,354	4,011
Income from property unit trusts securities	1,535	1,345
Income from private equity	506	287
Interest on cash deposits	439	795
Commission recapture	0	42
Class action	0	31
	14,708	**14,151**
Irrecoverable tax	(722)	(717)
Total investment income	**13,986**	**13,434**

9 Investments

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

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

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

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

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

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

Type of derivative	Expiration	Economic exposure Value £000	Market Value £000
Henderson			
UK Sterling	16th June 09	(840)	(840)
US Dollars	16th June 09	806	806
Futures UK LIFFE Long Gilt	26th June 09	3,327	3,327
Futures USA CBT 10 year	19th June 09	(1,298)	(1,298)
Futures USA Long Bond	19th June 09	724	724
AllianceBernstein			
Futures German DJ EURO STOXX 50	19th June 09	166	166
Forward Currency			
Sterling	15th June 09	36,543	36,543
Canada	15th June 09	(962)	(962)
USA	15th June 09	(23,555)	(23,555)
Switzerland	15th June 09	(1,431)	(1,431)
Euros	15th June 09	(8,609)	(8,609)
Japan	15th June 09	(1,432)	(1,432)
Sweden	15th June 09	(674)	(674)

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

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

AVC Investments

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

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

10 Investment Management Expenses

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

11 Current Assets

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

12 Current Liabilities

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

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

Finance and Corporate Resources
London Borough of Brent
September 2008

Designed by Brent Design Unit
TEL 020 8937 6165
EMAIL design@brent.gov.uk

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