BRENT PENSION FUND REPORT 2011

I N D E X

Message from the Chair

Brent Pension Fund Sub Committee

2010/11 was a year of further recovery, following the sharp rises in equity, credit and property markets in 2009/10. However, the financial year did not start smoothly – the European credit crisis surrounding Greece led to volatile markets. Although support was given by the European Central Bank and European governments, financial contagion spread to Ireland and Portugal. Although a long-term support facility has been agreed, there remain fears about other countries that are part of the euro project – in particular Spain.

Economic growth returned to developed markets in 2010/11, although not on the scale of the 10% expansion seen in China and strong growth in other emerging markets. Equity and property markets continued to rise, but more gently. Bond markets became uneasy – interest rates are so low that bond prices are likely to fall. Private equity prices also continued their recovery.

The year ended with further volatility, as Japan was rocked by a major earthquake that led to a tsunami. The Japanese market fell sharply, dragging the world market with it. Although prices had generally recovered by year end, the human tragedy, damage to nuclear power stations and threat to industrial supplies remain.

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The London Borough of Brent Pension Fund (the Fund) returned 6.7%, against the benchmark of 6.7% and the average local authority 8.2%. The value of the Fund rose from £455 million to £486 million. The highlights of this performance were:-

- the UK equity in house team outperformed the market by careful index tracking activity and reinvesting dividends in successful companies.
- the global tactical asset allocation manager outperformed substantially as their currency, bond and market decisions were successful, as well as their overweighting equities against bonds.
- the UK small company manager outperformed as stock selection was successful. The Gartmore team continued to add value despite the departure of the head of the team and the house putting itself up for sale. Henderson Global Investors has now purchased the Gartmore business, and secured the services of the small company team.

However, other areas were less successful, as follows:-

- the global equity manager continued to underperform as stock selection and allocations to emerging markets did not add value. It was decided to terminate the mandate and invest with an index tracking manager, Legal & General.
- The hedge fund of fund manager, Fauchier Partners, struggled as underlying managers failed to take on enough risk and were vulnerable to market movements. The manager has restructured the fund to remove underperforming managers, seek new return opportunities such as distressed debt, and reduce correlation to market direction.
- the diversified asset allocation followed by the Fund was unsuccessful in a market where equities outperformed other assets. When compared with the average local authority, the Fund is underweight in equities and overweight in private equity, property and hedge funds.

The main changes made to the Fund during the year were as follows:-

- to join the Solar Fund launched by the private equity manager, Capital Dynamics. The fund seeks to invest in solar energy projects in the USA, where there are incentives to increase the use of alternative energy sources. It is hoped that there will be further opportunities in other markets to invest in green energy sources.
- to revise equity allocation to reduce UK exposure and increase overseas equity exposure, particularly in emerging markets such as China and Brazil. It was agreed that UK exposure should fall to 40% of equity exposure (from 50%), and overseas exposure rise to 60% (from 50%). Whereas the previous global equity manager had been an active manager – taking views about individual stocks and markets – the new overseas equity manager is a passive manager that tries to replicate the performance of markets. As well as being a less expensive approach, it is hoped that the change will improve performance. As part of the change, members have appointed an active emerging markets manager – Dimensional Fund Advisers – who have a process that should lead to good returns in the future.

During the year, the actuary reported on the latest Actuarial Valuation, which shows that the fund deficit has increased to £294 millions following poor investment returns, low interest rates and increased staff longevity. Although the government has given some support to employers by changing the basis for the calculation of pension increases (from retail price inflation to consumer price inflation), it has become necessary to increase employer contribution rates from 1st April 2011.

The sub committee tackled a number of other important issues during the year. These included socially responsible investment, learning and development for officers and members, and a review of the Statement of Investment Principles to include an emergency procedure. Councillors agreed that the main priority was to maximise investment returns rather than follow a purely ethical investment policy. Members considered that voting shares and engagement with companies in co-operation with other funds were more effective in achieving change and protecting returns. The Fund has joined the USA Solar Energy Fund managed by our private equity manager, Capital Dynamics. The Solar Energy Fund invests in renewable energy sources encouraged by the USA government. The issue of learning and development will be under continuous review to ensure that both officers and members have the skills and knowledge to fulfil increasingly complex roles.

2011/12 has started more gently than the previous year, though there continues to be concern about potential debt restructuring in Greece and Ireland, and support for Portugal. Markets have fallen slightly, economic growth remains strong in emerging markets / sedate in developed markets. For the sub committee, the main focus will be the review of asset allocation for the Fund.

Councillor Shafique Choudhary
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 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 S. Choudhary
Vice-Chair	Councillor G. Crane
Member	Councillor J. Bacchus
Member	Councillor S. Hashmi
Member	Councillor D. Brown
Member	Councillor B.M. Patel
Member	Councillor Mitchell Murray
Co-opted members	
North West London College	Mr. A. Patel
GMB	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund responsibilities – Pension Fund Sub Committee

As set out in the scheme of governance, only councillors have voting rights because management of the Fund is part of their legal responsibility. However, representatives of both the staff and the largest employer outside Brent Council attend the sub committee and take a full part in discussions. The sub committee takes executive decisions.

During 2010/11, members attended sub committee meetings and received training as follows:-

Member	**Meetings attended**	**Training attended**
S. Choudhary	5	3
G. Crane	5	3
B. Patel	5	1
J. Bacchus	5	1
S. Hashmi	6	2
D. Brown	3	1
W. Mitchell Murray	1	1
A. Patel	-	-
G. Fraser	2	-

Training was an amalgam of on-line, conferences and manager / actuary presentations on key areas.

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

The following Fund managers manage individual portfolios:

Fund Managers	Asset Class	£M	per cent
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	85.1	17.4
Legal & General Investment Management (Helen Gawkrodger)	Overseas Equities	158.2	32.6
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	73.3	15.2
Aviva Investors (Catriona Allen)	UK and European Property	33.1	6.8
Gartmore Investment Managers (Julie Enright)	UK Small Companies	15.9	3.2
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.0	0.4
Capital Dynamics (Angela Willetts)	Private Equity	50.1	10.2
Fauchier Partners (Alex Dolbey)	Hedge Fund	42.2	8.7
Mellon Global Investors (Alastair Stewart)	Global Tactical Asset Allocation	18.8	3.8
Alinda Capital Partners (Simon Riggall)	Infrastructure	8.1	1.7
		486.9	**100**

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

BNP Paribas Security Services (Fixed Interest) – contact Jennifer Ockwell (Henderson)

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

Actuary (Contact - Christine Rice)
Aon Hewitt Ltd advises 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 (contact - Lynn Coventry)
The WM Company analyses and compares the performance of the fund with that of other funds and market indices 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 Services	Clive Heaphy	
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.

Pensions Manager	Andrew Gray	020 8937 3157

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

Advice and benefit calculations	London Pensions Fund Authority 020 7369 6249
Payment of pensions	LOGICA
The Registrar of Occupational Pension Schemes	P O Box INN, Newcastle-Upon-Tyne NE99 INN

AVC Provider
Clerical Medical is the AVC scheme provider – contact Simon Wildgoose.

Legal Adviser
The London Borough of Brent Solicitor is Fiona Ledden

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

London Borough of Brent

Statement of the Actuary for the year ended 31 March 2011

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 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.

2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £457.4M) covering 61% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

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 2011 was as set out below:

- 13.4% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011, amounting to £15.9M in 2011/12, and increasing by 5.3% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 24.6% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

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. In addition the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years. The resulting aggregate deficiency contributions in 2011/12 are £13.6M. The aggregate deficiency contributions payable are anticipated to remain lower than indicated by point 3 above until 2015/16.

5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.

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

7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	7.5% p.a.
Admission Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	5.3% p.a.
Rate of increases to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of London Borough of Brent. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

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

Aon Hewitt Limited

June 2011

Table A: Employer Contribution Rates

	2009/10 per cent	2010/11 per cent	2011/12 per cent	2012/13 per cent
Brent	22.9	22.9	25.1	26.9

List of scheduled bodies and admitted bodies	**Employee contributions**	**Employer contributions**
Scheduled bodies	**£ 000s**	**£ 000s**
London Borough of Brent	6,193	23,530
Alperton Community School	66	240
ARK Academy	27	61
Avigdor Hirsch Torah Temimah School	2	5
Barham Park Primary School	23	88
Cardinal Hinsley High School	80	287
Claremont High School	31	126
College of North West London	378	1223
Brent Housing Partnership	330	687
Convent of Jesus & Mary RC Language College	36	129
Capital City Academy	67	283
The Copland Community School & Technology Centre	71	256
Furness Primary School	15	56
JFS	67	220
Crest Boys	38	136
Crest Girls	70	251
Kilburn Park School	6	25
Kingsbury High School	111	400
Islamia Primary School	19	50
Malorees Junior School	9	33
Manor Day School	46	170
Michael Sorbell Sinai School	38	142
North West London Jewish Day School	12	48
Oakington Manor Primary School	15	90
Preston Park Primary School	34	128
Preston Manor High School	70	278
Queens Park Community School	52	206
Salusbury Primary School	22	84
Sudbury Primary School	25	97
St Gregory's RC School	28	102
St Joseph's RC School	29	105
	8,010	**29,536**
Admitted bodies: contributing		
Age Concern	0	4
Brent Association of Disabled People	2	6
Brent Society for Mentally Handicapped Children (Mencap)	6	17
Churchill contracts Ltd	1	2

Goldsborough Homecare and Nursing Services Ltd	72	550
Jarvis	0	55
Local Employment Access Project	21	69
National Autistic Society	187	868
Sudbury Neighbourhood Centre	9	32
Wetton Cleaning Services and (N & S) Grounds	16	94
Willow	8	29
	322	**1,726**

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
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 2011

Economic background

The year started off well with quarterly corporate earnings announcements in April 2010 reflecting buoyant revenue growth and controlled cost bases. With the recession still fresh in workers' memories wage demands were muted in much of the West, allowing revenue growth to fall to the bottom line. The good news from the quarterly earnings season was soon halted in late April, however, by fresh concerns surrounding Greece's ability to finance its debt. Since several other peripheral Eurozone nations faced similar structural problems there were fears of a contagion effect, which was only prevented by the announcement of the creation of a European Financial Stability Facility, a joint bailout package from the European Union and the International Monetary Fund.

Alongside disruption from a volcanic ash cloud, a devastating oil spill in the Gulf of Mexico and worries about financial stress tests for the European banking sector, the markets struggled to make progress during early summer. A spate of troubling macroeconomic data releases from the US also held back investor risk appetite. This led the US Federal Reserve to indicate that an interest rate rise was not imminent and that it was prepared to embark on a second round of quantitative easing (QE2) to support the economy. Investors began to anticipate a fresh round of liquidity injections and markets rallied when the US followed through with QE2 in autumn. The renewed liquidity helped to cancel the negative impact of monetary tightening in several emerging markets, including China. Investor confidence was further revived as both the US and Germany reported strong quarterly economic growth figures and equity markets rallied into the end of 2010.

The first quarter of 2011 was dominated by socio-political events in the Middle East and the fallout from the devastating impact of the earthquake and tsunami in Japan. Beyond the human suffering the most notable impact of these two incidents was felt in the oil price as Brent Crude moved above US$116 a barrel. The impact on household disposable income of higher energy costs, together with the cost-push inflation effect feeding through to raw material prices and distribution costs affected investor sentiment. Markets were rattled initially but settled down when it looked like the Middle East unrest would not spread to Saudi Arabia and Japan would be able to recover from the devastation wrought by nature.

Bond markets

Within fixed income, European macro concerns were a significant driver of market direction. In the months where fears over peripheral Europe were at their worst or 'double-dip' recession concerns gained traction, safe haven core government bonds performed well. But the sharp turn in risk appetite from September as a result of QE2 expectations, particularly in the US, reversed their fortunes as yields on government bonds began to climb, in response to the stronger economic data and the growing concerns about inflation. Higher yield corporate bonds performed better within the fixed income markets, reflecting a corporate default rate that was down considerably from a year earlier and ongoing narrowing of yield spreads.

In Q1 2011, sovereign debt woes continued intermittently and as inflation remained stubbornly high, markets began to price in interest rate hikes for the UK. Rating agencies also continued to downgrade the debt of peripheral European economies including Greece, Spain and Portugal. Over the period under review, both the FTSE British Government All Stocks index and corporate bonds, as measured by the iBoxx Sterling Non-Gilts index, returned +5.2%.

In currency markets, a week before a G20 summit in June the Chinese authorities removed the two-year old renminbi peg to the US dollar allowing the currency to become more flexible and in order to halt the advance of inflation, increased interest rates three times, as well as raising bank reserve requirement ratios seven times, during the period under review. In Japan, the yen's strength led to a surprise intervention in the currency markets by the Ministry of Finance in September, albeit with limited success.

Other markets

All markets rose in 2010/11, but more slowly than 2009/10. The details are as follows:-

a) equities rose as low interest rates, quantitative easing (liquidity), improved company earnings and economic growth encouraged investors into riskier assets.
b) UK property continued its recovery after a 45 per cent fall in valuations, driven by a strong central London market. However, rental growth still appears to be unlikely in the immediate future outside the capital. European markets also began to improve, particularly in Nordic and Western European markets.

c) private equity continued its slow recovery, supported by improved quoted market comparators, increased demand for buy-outs and a maturing portfolio of assets.
d) hedge fund managers struggled as concerns about possible falling markets made them cautious. Our manager was also restricted by a dearth of skilful credit managers.

Strategy and outlook

The global recovery appears to remain intact. However, inflation is becoming more of an issue and higher oil prices could be a potential dampener to growth should they remain at elevated levels. Euro area leaders appear to be edging towards establishing a permanent solution to the sovereign debt crisis and have announced a fresh round of bank stress tests, but plans, so far, remain light on detail.

In the UK, we expect the Bank of England to tolerate a period of above-target inflation given the weakness of the UK economy and the government's fiscal tightening programme, although we expect the first interest rate hike around mid-year. As global growth remains robust, we are looking to position for higher bond yields in the stronger economies where interest rate hikes are not sufficiently priced in.

Among corporate bonds, financials continue to offer a significant premium to other sectors in the market. Given recent positive developments – European banks raising new capital and a resistance by policymakers to force senior bondholders to take losses as part of restructuring plans – we have been selectively increasing exposure to this sector.

Outside of financials, we favour the mining sector as we expect global growth to remain robust and this sector trades at a premium to similar sectors. We remain negative on the UK retail sector as inflation and government spending cuts continue to squeeze real incomes. We remain underweight utilities on the expectation that political concerns over nuclear power will challenge certain issuers and low-yielding BBB-rated bonds will be less attractive for insurers under Solvency II regulations.

The credit long-short strategy is currently positioned to benefit from weakness in retailers and utilities and from positive performance by energy companies, miners, and subordinated financials. This reflects our near-term outlook for the global economy with sectors most sensitive to consumer spending facing headwinds, while those exposed to emerging markets strength should outperform. Through its use of credit default swaps, the strategy will continue to adjust its positioning and risk exposures during volatile markets.

We remain overweight secured loans in your portfolio. Strong investor demand coupled with low issuance in the primary market should remain supportive for prices relative to other credit-sensitive asset classes.

Pension Fund – GENERAL INFORMATION

Fund income

The fund receives income from the following sources:

- employees, at varying rates dependant on salary levels 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 2006/07 to 2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
Number of contributing employees as at 1 April	5,849	5,922	6,075	5,896	5,461
Deferred	5,159	5,380	5,713	6,096	6,595
Pensioners and dependants	5,024	5,161	5,269	5,438	5,711
	£M	£M	£M	£M	£M
Employee contributions	7.1	7.4	8.5	8.8	8.3
Employer contributions	25.6	28.4	28.1	29.8	31.2
Total contributions	**32.7**	**35.8**	**36.6**	**38.6**	**39.5**

Table C: The total administrative cost of the fund

Expenditure	2009/10		2010/11	
	£'000	per cent	£'000	per cent
Administration and processing	1,094	42.2	1,099	40.3
Actuarial fees	61	2.4	115	4.2
Administration, management and custody fees	1,417	54.7	1,496	54.8
Performance measurement fees	18	0.7	19	0.7
Total Administration Costs	**2,590**	**100.0**	**2,729**	**100.0**

The cost per fund member was £153 in 2010/11 (£149 in 2009/10).

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

YEARS	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
VALUE	**498,500**	**472,040**	**339,573**	**454,815**	**490,359**

Risk management

Commentary on the management of investment risk is contained within the Statement of Investment Principles, and the asset allocation for the Fund is included in table E. The risk profile of the Fund has not changed dramatically – exposure to private equity (from 8.4% of the Fund to 10.1%) and infrastructure (from 1.1% to 1.7%) has increased marginally in line with investment plans. The asset allocation has also been amended to reduce exposure to UK equities and increase exposure to overseas equities, but this activity is within quoted equity markets. The main investment risks are:-

a) Not meeting liabilities and severe market volatility. 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. For example, the fund uses the core portfolio in the fixed interest fund for stability and income. Equity managers are used to utilise the equity risk premium, but some are active managers (where markets are less efficient) whereas others are index trackers that are less expensive. Other approaches used include the illiquidity premium (infrastructure and private equity) and absolute return investing (hedge funds and the satellite portfolio in fixed interest). It is also very helpful that the Fund has a surplus of income (contributions and dividends) over expenditure (payment of benefits).

b) Operational risks. In particular, the systems used by and financial health of, managers, custodians and contractors (LPFA) 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. Managers report their use of professional and accounting standards to make valuations. If concerns arise, these are investigated and reported to members so that issues are resolved. Managers, custodians and contractors issue reports on a regular basis, allowing opportunity for checking. Wide investment diversification also provides protection – for example, the hedge fund manager invests in around 30 underlying funds, whereas each private equity fund usually has around 15 sub managers.

c) Liquidity risks, where the Fund has insufficient liquid assets to meet benefit payments. This is met by keeping most assets either very liquid, as in cash and bonds, or semi liquid through large company equities. The Fund uses a long term cash flow (reviewed every three years) to assess the security of investment horizons and the likelihood of sudden cash calls.

d) Foreign exchange risks. These are met by holding many assets in sterling, and hedging 75% of the value of developed overseas equity funds.

e) Credit risks. The Fund only appoints properly regulated managers, and only deals on authorised markets. The overseas equity manager, Legal & General, passively hedges 75% of the currency risk of the portfolio back into sterling. The manager has systems in place to protect the pooled fund from default by counterparties.

f) 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.

The quantitative risks may be assesses as follows:-

Credit: There is a counter-party risk, but it is suggested that this is negligible. The main risk is that employers may collapse, particularly as some are contractors. The risk is mitigated by the existence of bonds. The risk is assessed as 10% of contributions - £160,000.

Liquidity: This is assessed as nil because the Fund is able to borrow short term and has a regular flow of income from dividends and employers which exceed benefit payments. There are contractual payments to private equity and infrastructure managers over the next five years or so (up to £91.3m), but these will be met from the surplus of contributions and dividends. Derivative payments from Henderson Global Investors (£2m) are covered by cash reserves.

Market: Market risks, either positive or negative, are the largest risks faced by the Fund. It is suggested that Global Tactical Asset Allocation (GTAA) is most volatile – the fund uses leverage and is exposed to both equities and derivatives. Equity exposure would be next – corrections of 10% over a short period are quite regular. Bonds and other assets are less volatile, correcting over a longer period. For example, private equity and infrastructure have equity elements, but are also affected by profits and, in the case of infrastructure, tariff contracts. Potential variations may be:-

Equities	10% of exposure	£25m
Bonds	5% (less volatile)	£4m
Property	5% (less volatile)	£2m
Private equity	5% (less volatile)	£3m
Infrastructure	3% (income elements)	£0.5m
Hedge funds	2%	£1m
GTAA	15%	£3M

However, note that in extreme corrections (such as 1987), equity markets can fall by 33% in a short time.

Financial performance

The 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, reductions in employee numbers will reduce the current surplus of contributions over benefit expenditure.

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 Fund.

Sales and purchases
Sales proceeds totalled £ 279.1 million (£164.0 million 2009/10) and the purchases totalled £ 296.1 million (£192.6 million 2009/10) during 2010/11.

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

Asset allocation and performance
The Fund is fairly mature – in 2010, 60 per cent of liabilities 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 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:

Table E: Asset allocation changes over the year	**31 March 2010 £'000**	**per cent**	**31 March 2011 £'000**	**per cent**
UK equities	115,046	25.3	72,751	14.9
UK equities small companies	15,447	3.4	15,884	3.3
Private equity	38,331	8.5	52,073	10.7
Overseas equities – developed markets	95,600	22.1	122,121	25.1
Overseas equities – emerging markets	16,478	3.6	36,304	7.4
Fixed interest securities				
Gilts	14,769	3.3	17,144	3.5
Corporate bonds	22,325	4.9	23,957	4.9
Credit	22,596	5.0	21,717	4.5
Other	22,102	4.9	22,147	4.5
Property UK fund of funds	19,731	4.4	26,427	5.4
Property European fund of funds	6,756	1.5	6,666	1.4
Hedge funds	41,842	9.2	42,286	8.7
Global tactical asset allocation	11,450	2.5	18,827	3.9
Infrastructure	5,011	1.1	8,110	1.7
UK cash deposits	5,676	1.3	540	0.1
Derivatives	5	0.0	-	
Forward FX	4	0.0	-	
Total assets	**453,169**	**100**	**486,954**	**100**

Table F: The Fund's largest UK equity holdings	**31 March 2011**	
Company	**Market Value £'000**	**per cent of UK equities**
Royal Dutch Shell	4,735	6.5
HSBC	4,639	6.3
Vodafone	3,413	4.6
BP Amoco	3,414	4.6
Rio Tinto	2,796	3.8
GlaxoSmithKline	2,594	3.6
BHP Billiton	2,165	2.9
BG Group	1,695	2.3
British American Tobacco	1,916	2.6
Anglo American	1,809	2.5

Table G: Asset class	Asset allocation		
	Brent Target	Brent Target	Ave. Local Authority
	31 March 2010	31 March 2011	31 March 2011
	per cent	per cent	per cent
UK gilts	4.5	4.5	10.3
Corporate bonds	4.5	4.5	(incl. above)
Index linked gilts	-		4.6
Overseas bonds	2.0	2.0	2.6
Secured loans	2.0	2.0	-
Credit opportunities funds	5.0	5.0	-
UK FTSE 350 equities	18.5	12.5	31.1
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities – developed	26.5	22.5	35.6
Overseas equities - emerging	-	8.0	
Property	8.0	8.0	6.3
Hedge fund of funds	10.0	10.0	1.5
Private equity	8.0	10.0	3.1
Infrastructure	2.0	2.0	(incl. below)
Global tactical asset allocation	4.0	4.0	1.0
Cash	1.0	1.0	3.7

The main changes since 31st March 2010 were to increase exposure to overseas equities (including emerging market equities) reduce exposure to UK equities, and increase investment in private equity as part of the agreed programme.

Markets were positive in 2010/11. The WM Local Authority universe indicates that the best performing asset class was private equity. Asset allocation has reduced performance because the Fund has a larger than average exposure to hedge funds and private equity when compared to the average fund. Stock selection has been poor in overseas equities and hedge funds, but has added value in UK equities, fixed interest and GTAA.

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

Table H: Investment Returns 2010/11	
	per cent
Total Return	6.7
Average Local Authority Return	8.2
Fund Benchmark Return	6.9
Inflation (Retail Price Index)	5.3
Average Earnings	2.2

Table I illustrates the individual areas of outperformance or underperformance. The highlights are:

- the UK small companies' manager outperformed as a result of good stock selection.
- private equity recovered as investments matured and opportunities arose to sell holdings.
- the overseas equity manager underperformed as a result of overweighting financial companies and low exposure to emerging markets.
- the fixed interest manager outperformed through overweighting corporate bonds and good stock selection in the satellite portfolio.
- the global tactical asset allocation manager outperformed as all four strategies (currency, stock / bond, stock / stock and bond / bond) added value.
- the hedge fund of funds manager underperformed as a result of low exposure to credit and over-caution on the part of individual managers.

Table I: Investment returns in individual markets

Asset Class	Returns		Asset Allocation as at 31.March 2011	
	Brent Fund per cent	Benchmark per cent	Brent Fund Actual per cent	Average Authority per cent
UK equities-FTSE	9.4	8.6	15.0	31.1
UK equities-small	19.4	15.2	3.3	Incl. above
Overseas equities	4.0	8.9	32.7	35.6
Fixed interest & index linked	6.0	5.1	3.5	14.9
Corporate bonds	5.4	5.2	4.9	Incl. above
Overseas bonds	-	-	1.7	2.6
Other fixed interest	4.8	3.7	5.5	-
Property	10.5	10.0	7.0	6.3
Hedge funds	1.0	4.6	8.7	1.5
Private equity	5.8	0.4	10.1	3.1
GTAA	27.2	7.4	3.9	1.0
Infrastructure	13.1	10.6	1.9	Incl. above
Cash	2.1	0.4	1.8	3.7
Total	**6.7**	**6.7**	**100**	**100**

Table J: Individual manager's performance over one and three years

Asset class	Brent 1 yr	Benchmark	Brent 3 yrs	Benchmark	Brent 5 yrs	Benchmark
	per cent	per cent	per cent	per cent	per cent	per cent
UK equities	9.4	8.6	6.2	5.4	4.2	3.8
UK Small companies	19.4	15.2	4.6	2.5	0.9	-2.5
Overseas equities	4.0	6.3	-5.1	1.9	-4.6	0.2
Fixed interest	5.2	4.5	6.4	5.5	3.6	4.7
Property	10.5	10.0	-6.6	-2.4	-1.5	-0.8
Hedge Funds	1.0	4.6	1.3	5.9	4.6	7.0
Global tactical asset allocation	27.1	7.4	-2.7	5.1		

Table K illustrates the long-term performance of the Fund and the value represented when compared to average earnings. The fund has underperformed the average fund over five and ten year periods, mainly as a result of poor equity returns. 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 per cent	Average Local Authority Fund per cent	Average earnings per cent
2010/11	6.7	8.2	2.2
2009/10	28.9	35.2	2.2
2008/09	-26.0	-19.9	2.9
3 years to 31.3.11	0.6	5.4	2.4
5 years to 31.3.11	0.3	4.0	3.1
10 years to 31.3.11	2.7	5.3	n/a

Current 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 has updated procedures, in particular to establish a procedure to manage urgent issues – either with a manager or an asset class. It shows where the policies adopted by the Brent fund differ from those set out in Myners and the reasons for those differences. (www.brent.gov.uk/pensions)

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 voting service to inform officers on salient issues. The fund has delegated voting on overseas issues to the fund manager, Legal & General Investment 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.

Funding Strategy Statement (FSS)

The FSS was introduced in 2004 and updated in 2011 to reflect changes introduced as part of the Actuarial Valuation. The purposes of the FSS are:-

- 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. (www.brent.gov.uk/pensions).

Details of the funding strategy for scheduled and admitted bodies are included within the FSS and the 2010 Actuarial Valuation.

Governance of the Brent Fund and communication

In 2006, the Sub Committee published 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. (www.brent.gov.uk/pensions)

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

New developments
The Pension Fund Sub Committee has appointed Legal & General Investment Management to manage the overseas equities mandate. The Fund is planning to appoint a new emerging market equities manager (appointed Dimensional Fund Advisers in July 2011).

London Pension Fund Authority Report (LPFA)
Introduction

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

On time processing in all benefit calculation categories of work exceeded 99%, with an overall percentage of 97.55%. We were disappointed that a small number of cases were completed late mainly in the early months of the year, but at the same time we were also very pleased to see an excellent level of service reflected by nearly half of the cases processed on time actually being completed in advance of their contractual timescales.

The 2010 valuation was submitted on time and to the satisfaction of Brent council's actuary (AonHewitt). I believe the smooth submission was a good indication of the levels of communications between my team and the Council. Annual Benefit Statements were sent to 5095 deferred beneficiaries and 3503 active beneficiaries. The second run in March produced a further 1892 ABS. Customer satisfaction continues to be very good. We received only 5 complaints for the year (10 last year), which was responded to and resolved promptly.

The monthly interface is now working effectively to pick up joiner's leavers and change of hours for all members on the main payroll. Also the use of the on line forms has steadily increased over the year with more employers now submitting their data and this has been detailed in the attached report.

The New Year has begun with the announcement of changes to the tax allowances, the acceptance of the Hutton report and the Chancellor of the Exchequer expressing the desire to increase contributions to the public sector pension arrangements by on average 3% points. I suggest this indicates another busy year in terms of communication and system amendments.

Neil Lewins
Head of Commercial Pensions

Service Standards
Although regular and clear communication are important issues to employers and employees, it is also considered to be important that stakeholders are aware of the service standards set for responses by both Brent Council and the LPFA. Service standards should be reached on at least 98 per cent of cases: The table below indicates that the required service standards are being exceeded, and that services have improved over the last year.

Table L: Service standards over the period 1 April 2010 to 31 March 2011 (2009/10 in brackets)

	Completed in period	Performance	Expected time scales	London Median
Admissions	827	92.36 (91.47)	10 days	10 days
Transfers in	205	99.78 (99.71)	5 days	10 days
Transfers out	254	99.78 (99.71)	10 days	15 days
Estimates (employers and employees)	411	99.27 (100.0)	5 days	10 days
Retirements	711	99.52 (99.93)	10 days	5 days
Deferred benefits	803	98.82 (99.92)	10 days	15 days
Refunds	73	98.82 (99.92)	10 days	10 days
Deaths	334	99.52 (100.0)	5 days	5 days
Correspondence	3279	95.56 (99.93)	5 days	n/a

Below is a summary of the employee contribution banding (Table M) and the membership data used for the actuarial valuation of the London Borough of Brent Pension Fund as at 31 March 2010 (Table N). We have shown the number of active, deferred pensioners, pensioners and dependants, split into five year age bands.

Table M: Employee contribution banding 2010/11

Contribution rates (%)	5.25	5.5	5.8	5.9	6.0	6.5	6.8	7.2	7.5	**Total**
Total members	14	474	1,069	934	6	1,500	928	489	47	**5,461**

Table N: Number of members as at 31 March 2010

Age Band	Actives	Deferreds	Pensioners	Dependants
1-5	0	0	0	5
6-10	0	0	0	18
11-15	0	0	0	20
16-20	27	5	0	31
21-25	146	162	0	15
26-30	388	457	0	4
31-35	490	530	0	3
36-40	661	652	4	7
41-45	908	1,091	12	9
46-50	1048	1,359	36	11
51-55	834	1,129	102	30
56-60	591	800	217	41
61-65	352	196	883	52
66-70	66	16	1,036	84
71-75	7	10	942	116
76-80	0	1	690	136
81-85	0	2	444	140
86-90	0	0	236	95
91-95	0	0	78	43
96-100	0	0	20	17
101-105	0	0	4	7
106-110	0	0	0	2
Total	**5,518**	**6,410**	**4,704**	**886**

London Borough of Brent Pension Fund accounts as at 31 March 2011

	Note	2008/2009 £ 000s	2009/2010 £ 000s	2010/2011 £ 000s
Contributions and benefits				
Contributions receivable	3		38,600	39,594
Transfer values in	4		4,389	4,306
			42,989	**43,900**
Benefits payable	5		28,376	32,948
Payments to and account leavers	6		4,869	5,117
Administrative expenses	7		1,155	1,214
			34,400	**39,279**
Net additions (withdrawals) from dealings with members			**8,589**	**4,621**
Returns on investment				
Investment income	8		12,059	12,007
Change in market value of investments	9		96,029	20,431
Investment management expenses	10		(1,435)	(1,515)
Return on investments			**106,653**	**30,923**
Net increase / (decrease) in the funds during the year			**115,242**	**35,544**
IFRS net assets of the scheme				
Opening net assets		**472,039**	**339,573**	**454,815**
Closing net assets		**339,573**	**454,815**	**490,359**
Net assets statement 31 March				
Investment assets	**9**	**340,356**	**454,112**	**487,443**
Investment liabilities		**(154)**	**0**	**0**
TOTAL Investments		**340,202**	**454,112**	**487,443**
Current assets	**11**	**852**	**971**	**3,880**
Current liabilities	**12**	**1,481**	**(268)**	**(964)**
Net assets of the scheme at 31 March		**339,573**	**454,815**	**490,359**

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

There are no material differences on transition to IFRS.

The actuarial certificate (page 8) sets out the actuarial position of the Fund and the required level of contributions payable. In accordance with International Financial Reporting Standards, the actuary has valued the whole Fund as at 31st March 2010 on the basis of International Accounting Standard 26. This is produced as a separate report (web reference), and will be updated every three years in accordance with CIPFA guidance.

London Borough of Brent Pension Fund
Accounting policies and notes to the accounts March 2011

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, and have been prepared on a going concern basis. The actuarial position of the fund, which **does** take account of such liabilities, is dealt with in the statement by the actuary on page 8 of the annual report of the Fund and these financial statements should be read in conjunction with it.

2. Accounting policies
The consolidated accounts of the Fund for the year to 31st March 2011 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 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 May 2007). Chapter 2 Recommended Accounting Practice, International Financial Reporting Standards (IFRS) and the CIPFA Code of Practice on Local Authority Accounting.

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, property and other unquoted securities including hedge funds and private equity are valued at the external manager's valuation or latest accounts, unless actual valuations are available. Some valuations will be based on estimation or use of judgement, but will be based on professional standards, as in the case of property, or on comparable investments. For example, private equity valuations will be based on prices paid for the recent sale of similar assets, less an appropriate reserve, or on comparative earnings multiples
(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 31 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.

G Ex-gratia payments
No ex-gratia payments were met from the Fund in 2010/2011.

H 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.

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.

I Employers' contributions
In 2010/2011 employers' contributions of £31.2 million were paid (2009/10 £ 29.7 million).
The increased contributions will allow elimination of the funding deficit over a 25 year period.

J Statement of investment principles
The Pension Fund Sub-committee agreed a revised Statement of Investment Principle in 2010 and published this both to the employers and on the Finance website. (www.brent.gov.uk/pensions)

K 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).

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

M 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 Fund (and its income and expenditure) for the year ended 31st March 2011. 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.

Clive Heaphy
Director of Finance and Corporate Services

3 Contributions receivable

Employees contributed £8.3 million in 2010/2011. The numbers of contributing members increased during the year.

	2009/10 £000s ongoing	2009/10 £000s deficit	2010/11 £000s ongoing	2010/11 £000s deficit	2009/10 £000s	2010/11 £000s
Employers						
Brent	16,842	9,218	17,383	9,514	26,060	26,897
Scheduled	1,993	395	2,176	465	2,388	2,641
Admitted	908	412	1,091	633	1,320	1,724
Members						
Brent					7,384	6,892
Scheduled					912	904
Admitted					289	316
Additional voluntary contributions					247	220
	19,743	**10,025**	**20,650**	**10,612**	**38,600**	**39,594**

4 Transfers in	2009/10 £000s	2010/11 £000s
Individual Transfers in from other schemes	**4,389**	**4,306**
5 Benefits payable		
On retirement or death		
Pensions		
Brent	20,781	21,721
Scheduled	689	906
Admitted	735	795
Lump sum retirement benefits		
Brent	4,775	7,762
Scheduled	251	972
Admitted	249	296
Lum sum death benefits		
Brent	690	496
Scheduled	16	0
Admitted	190	0
	28,376	**32,948**
6 Payments to and on account of leavers		
Refund to members leaving service	45	(6)
Individual transfers to other schemes	4,824	5,123
	4,869	**5,117**
7 Administration expenses		
Administration and processing	1,055	1,064
Actuarial fees	61	115
Audit fees	39	35
	1,155	**1,214**

8 Investment Income

Dividend income equities	6,981	4,837
Income from fixed interest securities	2,902	2,371
Income from property unit trusts securities	1,104	1,285
Income from private equity	663	2,408
Interest on cash deposits	38	42
Infrastructure	68	289
Commission recapture	3	17
Miscellaneous	296	758
Class action	4	0
Total investment income	**12,059**	**12,007**

Details of irrecoverable taxation are no longer being included as these are not required as part of the Pension Fund Statement of Recommended Practice.

9 Investments (summary as in the Statement of Recommended Practice)

Fixed interest securities – public sector	14,769	17,144
Equities	227,124	72,751
Pooled investment vehicles	205,591	396,519
Derivative contracts	9	0
Cash	5,676	540
	453,169	**486,954**

Investments (detail)

	Value at 31.03.10 £'000s	Purchases At cost £'000s	Sales Proceeds £'000s	Change in Market Value £'000s	Value at 31.03.11 £'000s
UK equities-quoted	100,325	6,814	37,966	3,578	72,751
Global equities-quoted UK Alliance	14,721	3,683	17,810	(594)	0
Global equities-quoted Alliance	112,078	52,160	158,312	(5,926)	0
Global Equities-LGIM	0	111,304	0	10,817	122,121
Emerging markets-LGIM	0	34,724	0	1,580	36,304
Fixed interest (including unit trusts)	81,792	63,211	61,291	1,253	84,965
Property UK FOF UT	19,731	4,000	0	2,696	26,427
Property European FOF UT	6,756	0	0	(90)	6,666
UK equities small companies UT	15,447	77	2,400	2,760	15,884
*Private equity-YFM/CapDyn LLP	38,331	13,045	1,413	2,110	52,073
Hedge fund Open ended Trust	41,842	0	0	444	42,286
*Infrastructure LLP	5,011	3,079	0	20	8,110
GTAA Open ended Trust	11,450	4,000	0	3,377	18,827
	447,484	**296,097**	**279,192**	**22,025**	**486,414**
Cash deposits	5,676	0	5,175	39	540
Henderson Bond Future	0	106	(15)	(121)	0
Henderson FX	4	1,829	1,829	(4)	0
AllianceBernstein FX	0	5,765	4,298	(1,467)	0
AllianceBernstein Futures	5	154	118	(41)	0
	453,169	**303,951**	**290,597**	**20,431**	**486,954**
Investment income due	943				489
	454,112				**487,443**

UT is unit trust
LP is limited partnership

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.

*Private equity and Infrastructure

The Brent pension fund has made commitments as a limited partner to ten funds managed by Capital Dynamics, the Capital Fund for London and to the Alinda Infrastructure Fund. As at 31st March 2011, outstanding commitments totalled £91.3m.

Fixed interest securities	**2009/10 £000s**	**2010/11 £000s**
Segregated		
UK public sector	14,769	17,144
Pooled		
UK corporate – open ended unit trust	22,325	23,957
Overseas government open ended unit trust	8,834	8,257
Secured loans open ended unit trust	8,630	4,613
Credit opportunities open ended unit trust	11,534	9,201
Credit alpha open ended unit trust	11,062	12,516
Currency fund open ended unit trust	1,255	646
Absolute return fund open ended unit trust	0	0
Infrastructure Limited Partnership	812	920
Money market fund	2,571	7,711
	81,792	**84,965**

Pooled investment vehicles (excluding fixed interest).

	2009/10 £000s	**2010/11 £000s**
Property - UK fund of funds unit trust	19,731	26,427
Property - European fund of funds unit trust	6,756	6,666
UK Equities – small companies unit trust	15,447	15,884
Overseas equities – developed markets	0	122,121
Overseas equities - emerging markets	0	36,304
Private equity limited partnerships	38,331	52,073
Hedge fund open ended trust	41,842	42,286
Infrastructure limited partnership	5,011	8,110
GTAA open ended trust	11,450	18,827
	138,568	**328,698**

Derivative Contracts	**2009/10 £000**	**2010/11 £000**
Currency – Henderson	4	-
Futures – bonds	-	-
Futures – equities	5	-

Type of derivative	**Expiration**	**Economic exposure value £000**	**Fair Value Asset**	**Fair Value Liability**
Henderson				
UK Sterling	27thJune 2011	50	-	
US Dollars	27th June 2011	(50)	-	
Futures UK LIFFE Long Gilt	28thJune 2011	(1172)	-	
Futures Canada MSE 10 year	21st June 2011	(616)		-
Futures Australia 3 year Bond	15th June 2011	(1522)	-	
Futures EUX Euro-bund	8th June 2011	1074		-

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) Currency exposure is obtained through futures, and has two main purposes. First, the pooled currency fund managed by Henderson 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.
c) 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

Additional voluntary contributions are not included in the pension fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds Regulations 1998. 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 is as follows:-

	2009/10 £000s	2010/11 £000s
Equitable Life	194	180
Clerical Medical	1,235	1,212
	1,429	**1,392**

10 INVESTMENT MANAGEMENT EXPENSES	**2009/10 £000s**	**2010/11 £000s**
Administration, management and custody fees	1,340	1,429
Performance measurement fees	18	19
Other advisory fees	77	67
	1,435	**1,515**
Investment management fees include fees charged directly to the Fund, but not fees charged within pooled funds.		
AVC Investments	194	180
	1,235	1,212
	1,429	**1,392**

11. CURRENT ASSETS		
Contributions due		
Employers	569	2,507
Employees	92	98
Additional voluntary contributions	2	1
Other miscellaneous debtors	308	1,274
	971	**3,880**

12. CURRENT LIABILITIES		
Management / advisor's fees	(222)	(48)
Lump sums not paid	0	0
Accrued expenses	(46)	(916)
	(268)	**(964)**

13. Short-Term Debtors		
Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0

Public corporations and trading funds	0	0
Other entities and individuals	971	3,880
	971	**3,880**

14. Short-Term Creditors

Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	(264)	(964)
	(264)	**(964)**

15. Cash and cash equivalents

Cash held by authority	0	0
Bank current accounts	5,676	540
Short-term deposits with building societies	0	0
	5,676	**540**

Information Required for IAS 26

Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

Actuarial present value of promised retirement benefits

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA have also indicated that comparator values at the 2007 should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. We do not believe the Authority needs to show these additional items if it does not wish to do so, but we include them in our report as we believe that they are helpful for the reader.

	Value as at 31 March 2010 £M	Value as at 31 March 2007 £M
Fair value of net assets	454.8	498.5
Actuarial present value of the promised retirement benefits	1,116.5	853.9
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(661.7)	(355.4)

Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2010 (% p.a.)	31 March 2007 (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

** In excess of Guaranteed Minimum Pension increases in payment where appropriate*
*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010 and 31 March 2007.*

Principal demographic assumptions

Post retirement mortality	31 March 2010	31 March 2007
Males		
Base table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	100%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	23.7	22.0
Future lifetime from age 65 (currently aged 45)	25.5	24.0
Females		
Base table	Standard SAPS Normal Health Light Amounts (S1NFA_L)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	80%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	26.5	24.0
Future lifetime from age 65 (currently aged 45)	28.5	25.3

* The scaling factors shown apply to normal health retirements

	31 March 2010	31 March 2007
Commutation	Each member is assumed to exchange 25% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

Changes in benefits during the accounting period

As set out earlier we believe the switch to using CPI for pension increases falls under paragraph 6.5.5.1 of the Code of Practice and our suggested wording is set out below.

In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

We have estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £132.0M. i.e. the actuarial present value of promised retirement benefits would have been £984.5M.

Volatility of Results

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

The present value of the defined benefit obligations are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will therefore lead to volatility in the funded status of the Fund disclosed under IAS 26 as amended by the Code of Practice.

Report and accounts prepared and compiled by
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