	Pension Fund Sub Committee 26 June 2012 **Report from the Director of Finance and Corporate Services**
	Wards Affected: ALL

Monitoring report on fund activity for the quarter ended 31st March 2012

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 31st March 2012. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) Most equity markets rose during the quarter, but government bonds fell in value as the European Central Bank reassured markets by making funds available to banks.

b) The Fund has risen in value from £467m to £485m, but has underperformed its benchmark over the quarter (-1.5%) as a result of stock selection (underperformance in private equity, UK equities, infrastructure and European property) and asset allocation.

c) The Fund underperformed the average local authority fund return for the quarter (-1.9%), as a result of asset allocation (low exposure to equities / high exposure to alternatives), and relative underperformance in bonds, private equity and hedge funds.

d) Over one year, the Fund has underperformed its benchmark (-3%). Asset allocation detracted from performance by overweighting equities and underweighting property and bonds. In stock selection, underperformance in hedge funds, UK equities, emerging markets, private equity, infrastructure and overseas property were key detractors.

e) Over one year, the Fund has underperformed the average local authority fund (-2.8%), mainly as a result of underperformance in bonds, UK equities, private equity and hedge funds, offset by gains from asset allocation (reduced equities, additional alternatives).

2. RECOMMENDATIONS

Members are asked to

a) note the investment report
b) approve the revised Statement of Investment Principles.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 31ST MARCH 2012

3.1 Most equity markets rose during the quarter. The UK market rose by 5%, USA by 12%, Japanese by 19%, Germany 20%, and Hong Kong by 12%. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates in UK rose marginally during the quarter, but European rates fell. It is unlikely that interest rates will rise until 2014, despite inflation being above target.
- Headline inflation (RPI) rose by 3.5% in the year to March (4.8% December), and the Index of Consumer Prices (CPI) rose by 3.0% (4.2% December). It is expected that inflation should fall over a two year period as VAT and commodity price increases fall out of the figures, and spare capacity and low pay increases bear down on prices. The Bank has completed the quantitative easing programme to increase liquidity within the banking system. Further quantitative easing is expected, but the Bank is concerned about inflation.
- Average earnings growth (including bonuses) was 0.1% p.a. in March (1.9% November), well below the Bank of England’s ‘danger level’ (4.5%). Unemployment (claimant numbers) has risen to 1.6m, and is likely to rise further as public expenditure is reduced, real wages fall, and taxes are raised.
- The UK economy has shrunk in Q4 2011 (0.3%) and by 0.3% in Q1 2012, so that the economy is in recession. GDP is expected to either shrink further in 2012 (by up to -0.5%) or grow marginally (up to 0.5%), but conditions may improve in 2013. However, the government has signalled that the reductions in public expenditure will continue after 2015.
- Retail sales have fallen by 1.1% in the year to April. The squeeze on incomes and the rising price of commodities (oil) is depressing demand, and a number of High Street retailers have gone into administration. House prices have fallen by 0.5% over one year to April (Halifax). Mortgage approvals are only 60% of their level four years ago. Capital Economics still expects further house price falls (5% per annum over each of the next two years).

In summary, the UK economy may be shrinking, but interest rates are expected to remain low for some time. The government was using both fiscal and monetary policy to combat the downturn, but fiscal policy is being tightened over the next four years. The recovery is expected to be very slow with setbacks.

3.2 Central banks have co-ordinated activity to supply liquidity to markets so that credit is available to support economic activity. It is expected that the USA economy will grow by around 2% - 3% in 2012. The Eurozone GDP has grown by 1.8% in 2011, supported by growth in Germany, but there will be recession in 2012. The bail-out deals for Greece have temporarily reduced market tension, as has ECB action to supply loans to European banks, but there are worries about future requirements for Greece and other European states. Unemployment levels have risen sharply, particulalrly in Spain and Greece (above 20%). Growth in China and India is forecast to be around 8% and 6% respectively in 2012 – emerging market growth remains strong. China has raised interest rates and tightened banks’ reserve requirements, while India has also raised rates, but elsewhere there are signs of easing (Australia and Brazil). The world economy is expected to grow by between 2% and 3% in 2012.

3.3 A paper on market events and future prospects, written by the Independent Adviser, is attached.

3.4 Table 1 below shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included elsewhere. The WM Local Authority average asset allocation indicates little change apart from some increase in overseas equities at the expense of government bonds.

Table 1: Asset Allocation as at 31st March 2012 compared to the Benchmark

Market (1)	Market Value 31.03.12 £M (2)	Market Value 31.03.12 % (3)	WM LA Average 31.03.12 % (4)	Fund Benchmark 31.12.11 % (5)	Market Value 31.12.11 £M (6)	Market Value 31.12.11 % (7)	WM LA Average 31.12.11 % (8)
Fixed Interest							
UK Gilts	-	-	10.6		18.5	4.0	10.8
Corp.Bonds	-	-	*		23.7	5.1	*
IL Gilts	-	-	4.5		-	-	4.3
Overseas	-	-	2.1		-	-	2.1
Emerg. Market	-	-	-		8.3	1.8	-
Secured loans	-	-	-		2.2	0.5	1.0
Credit Opps.	9.8	2.0	-		9.5	2.0	*
Credit Alpha	-	-	-		12.3	2.6	*
Total bond fund	66.1	13.6		15.0	-	-	
Equities							
UK FTSE350	86.5	17.8	28.8	18.0	64.9	13.9	28.7
UK Small co's	16.0	3.3	*	4.0	13.7	2.9	*
O/seas - developed	118.0	24.3	35.3	21.0	108.1	23.1	35.3
O/seas – emerging	31.0	6.4	*	8.0	27.7	5.9	*
Other							
Property – UK	28.4	5.9	7.0	8.0	28.1	6.0	6.9
Property – Eu.	6.1	1.3	*	*	6.4	1.4	*
Hedge funds	40.4	8.3	1.8	10.0	39.8	8.5	1.5
Private Equity	60.9	12.5	3.9	10.0	60.1	12.9	4.1
GTAA	-	-	*	-	18.2	3.9	1.4
Infrastructure	16.6	3.4	*	5.0	17.0	3.6	*
Cash	5.6	1.2	3.8	1.0	8.4	1.9	3.7
Total	**485.4**	**100.0**	**100.0**	**100.0**	**466.9**	**100.0**	**100.0**

3.5 The main **investment** changes to the Brent Fund have occurred as a result of

a) market movements.

b) termination of the GTAA mandate (£18.2m) with the proceeds invested in UK equities.
c) reduced allocation to fixed interest (£7m), with the proceeds invested in UK equities and elsewhere, and used to pay benefits.
d) lump sum benefits - the Brent Fund has paid £8.6m in lump sums for 2011/12 (£9.5m in 2010/11, £6.2m in 2009/10).
e) increased exposure to private equity (£2.7m, comprising of contributions £3.7m, distributions £1m), UK Small companies (£0.4m), property (£0.3m) and infrastructure (£0.2m).

Since the end of the quarter there has been further investment in private equity and UK Small companies.

Performance of the Fund

3.6 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31st March 2012.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31.03.12			Year Ended 31.03.12			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Equities			8.5			-0.1	
UK FTSE350 Equities	4.3	5.9	7.0	1.0	1.4	2.2	FTSE 350
UK Small Caps	13.5	18.2		-1.8	-0.1		FTSE Smallcap ex IT
Overseas - developed	9.2	9.2	9.7	1.0	0.9	-2.1	FTSE World
Overseas - emerging	11.9	11.0	10.9	-	-	-	FTSE AW - All emerging
Fixed Interest							
Total Bonds	0.9	0.7	0.4	7.4	7.8	12.7	Brent benchmark
Other							
UK Property FOF	0.8	0.9	1.0	6.0	6.6	5.5	IPD Pooled index
Eu Property FOF	-4.0	1.9	-	-9.6	8.0	-	IPD All properties
Hedge Funds	2.2	1.2	2.0	-3.7	4.8	-0.1	3 month LIBID+4%
Private equity	-3.4	2.5	0.6	2.4	10.0	5.3	Absolute return 10%
Infrastructure	-3.2	2.5	-	3.1	10.0	-	Absolute return 10%
Cash	0.2	0.1	-0.5	3.0	0.4	0.8	GPB 7 DAY LIBID
Total	**3.7**	**5.2**	**5.6**	**-0.2**	**2.8**	**2.6**	

3.7 Returns for the quarter underperformed the benchmark by 1.5%, following underperformance in private equity, UK equities, infrastructure and overseas property. Asset allocation was marginally negative for the quarter (-0.2%) as a result of the overweight to private equity and underweight to UK Small companies. The main stock selection factors were:-

a) The UK in house portfolio underperformed as a result of cash inflows from the Mellon GTAA Fund. Although new investments added value, sharply rising markets meant that increases did not match those of the market for the whole quarter (see para. 3.11).

b) UK Small companies underperformed as a result of stock selection issues – in a sharply rising market, lower quality stocks outperformed.

c) Fixed interest. The sale of government gilts, and the overweight to corporate bonds added value in the core portfolio. The enhanced portfolio also outperformed, though this was reduced by the fall in the value of the Henderson Infrastructure Fund, where falling bond yields increased the value of pension fund liabilities. I have included a further note in paragraph 3.14.

d) Emerging market equities. Both value and small stocks generally outperformed during the quarter.

e) Property. The performance of the European property fund was reduced by the fall in the euro and problems in individual funds. In particular, the Rockspring fund (in Portugal) suffered further losses.

f) Hedge funds. The Jubilee Fund added value as various strategies benfitted from rising markets (equities), and distressed credit and multiple strategy opportunities. The manager will continue to be monitored closely following a period of underperformance.

g) Private equity. Although there have been a number of realisations that have given strong returns, valuations fell as private equity reflects falling public equity markets to the end of September (with a time lag). European valuations have also been reduced by the fall in the euro.

3.8 Over one year, the Fund underperformed the benchmark (-3%). Asset allocation detracted from performance (-0.5%) by underweighting bonds and property, and overweighting equities. Stock selection lost value (-2.4%) as a result of underperformance in UK equities, hedge funds, emerging markets, private equity, infrastructure and overseas property.

3.9 The Brent fund underperformed (-1.9%) the WM Local Authority average for the quarter as a result of asset allocation (underweight equities / overweight alternatives) and stock selection (underperformance in UK equities, private equity and infrastructure).

3.10 The Brent fund has underperformed the average local authority fund by -2.8% over one year, mainly because of underperformance in bonds (a higher allocation to credit, no allocation to index linked gilts) UK equities, hedge funds and private equity, offset by asset allocation (lower exposure to equities / higher exposure to alternatives.

Actions taken by the Brent In-House UK Equity Manager during the Quarter

3.11 The main activity during the quarter has been to invest the cash arising from the termination of the Mellon GTAA mandate (£18.2m) and the sale of gilts by Henderson. As it is intended to pass the in house fund to Legal & General in June, investment was restricted to about 40 larger stocks, rather than to match the FTSE350 index, as matching would have been expensive in dealing costs. Tracking error has therefore risen. The timing of dealing activity has also led to underperformance.

3.12 The in house fund will be passed over to Legal & General Investment Management in June, as agreed.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Markets fell in April and May as concerns about economic growth and the future of the Eurozone affected sentiment.

3.14 Members agreed at their meeting on 29th November to join the Henderson Total Return Bond Fund (TRBF). Following a period of sales, transfers and restructuring, most of the Brent fixed interest portfolio was transitioned into the TRBF on 29th March. The cost of sales was £150,000 (as estimated), or 0.2% of the value of the Fund. The final part of the transition occurred in April, when the holding in the Credit Opportunities Fund (£9.8m) was sold and the proceeds invested in the TRBF.

3.15 Following agreement in April to join the Diversified Growth Fund managed by Baillie Gifford, it is planned that the Brent Fund will do the following in June:-

a) Transfer the in house UK fund (approximately £65m) to Legal & General Investment Management (LGIM).
b) Terminate the custody agreement with Bank of New York Mellon. This will involve transferring UK stocks to LGIM, and re-registering the two Aviva property funds into the London Borough of Brent Pension Fund.
c) Fund the Baillie Gifford investment by selling UK (£18m) and Overseas (£12m) equities.

I will update members on progress at the meeting of the Sub Committee.

3.16 The Fund joined the Henderson PFI Secondary Fund II in 2006. Members will be aware that the Fund has suffered following the decline in the value of PFI assets as a result of the 2008 credit crisis. Other issues have also affected valuations, such as the Laing's pension fund deficit. The most recent quarter reported (to 31st December 2011) indicates that the business is growing, but that the fall in gilt yields has increased pension fund liabilities. Management have announced that they plan to float the business in 2014, if markets are favourable. However, a number of investors have commenced legal action against Henderson, arguing breach of mandate and misrepresentation. The investors, Manager and General Partners are seeking to have the costs of their litigation met from Fund II assets, which may impact on the value of Fund overall.

3.17 A revised Statement of Investment Principles (SIP) is attached, updating the previous SIP for changes to the investment management arrangements, such as the termination of the GTAA mandate, the externalisation of the in house UK equity mandate, changes to the fixed interest mandate, and the appointment of a Diversified Growth Fund manager.

3.18 London Council leaders have discussed and are investigating the opportunities to pool London pension funds (the London boroughs, Transport for London, and the London Pension Fund Authority). The proposals are driven by the desire to reduce costs and improve expertise, and have become entwined with suggestions that local authority funds should have greater exposure to UK infrastructure.

3.19 The quarterly update to 31st March 2012 has confirmed that the Capital Fund for London, which invests in venture capital opportunities, should wind-up in July 2014.

The Brent Fund originally committed £5m to the Capital Fund, but investment has proved to be difficult and the commitment was reduced to £4m (current investment £2.9m, valued at £1.7m). As the Capital Fund is now in the final investment and sell off stage, there are proposals to reduce commitments further (by £810,000) to £3.19m during 2012. Although a number of investments have made losses, the manager is planning to sell the portfolio over the next two years and return cash to investors. In the event of a loss on the fund as a whole, there are underwriting provisions with the Department of Trade & Industry allowing a guaranteed 10% annual return equivalent to Ordinary Limited Partners, calculated on investments since fund inception, subject to a £15m limit.

4. FINANCIAL IMPLICATIONS

These are contained within the body of the report.

5. STAFFING IMPLICATIONS

None directly.

6 DIVERSITY IMPLICATIONS

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

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8. BACKGROUND INFORMATION

Henderson Investors – March 2012 quarter report (exempt)
Legal & General – March 2012 quarter report (exempt)
Fauchier Partners – March 2012 quarter report (exempt)
Dimensional Asset Management – March 2012 quarter report (exempt)

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Services , 020 8937 1472/1473 at Brent Town Hall.

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Director of Finance & CS

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Report from the Independent Adviser

Investment Report for the Quarter Ended 31st March 2012

The index returns and currency movements for the quarter ended 31st March 2012 are shown in the tables below:-

Index returns expressed in sterling

		Q/e 31.03.12
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	11.0
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	9.7
Europe	FTSE Developed Europe (ex UK)	9.7
North America	FTSE North America	9.3
Japan	FTSE Developed Japan	7.9
UK	FTSE All Share	6.1
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.8
UK Gilts	FTSE British Government All Stocks	-1.7
UK Index Linked	FTSE British Government IL Over 5 years	-2.0
Property	IPD	N/A *
Cash	Merrill Lynch LIBOR 3 Month	0.3

* The IPD UK Property return from 31st December 2011 to 29th February 2012 was 0.6%.

Currency Movements for quarter ended 31st March 2012

Currency	31st December 2011	31st March 2012	Change %
USD/GBP	1.554	1.598	2.8
EUR/GBP	1.197	1.20	0.2
USD/EUR	1.298	1.332	2.6
YEN/USD	76.940	82.295	7.0

It seems fair to say that very few investment strategists and market timers could have possibly foreseen the extremely robust equity returns shown above, both for the UK and globally. Indeed, at the turn of the year markets, financial commentators, investment management houses and economists had been transfixed by an amalgam of recession worries and the continuing saga of Grecian problems and their contagious effect on the Eurozone and elsewhere. Thus, investors both institutional and private had continued to shelter in the perceived sanctuaries of gilts, international sovereign bonds, gold and even cash, despite its microscopic returns. As can be seen in the returns table, all equity markets have had a truly banner performance in the first quarter of 2012. The top equity performer was the Emerging Markets class (+11.0%). This was not surprising as in a period when investors are prepared to take more risk, it has become the case that Emerging Markets strengthen on the basis of their relatively stronger economic growth prospects. The same perception, although to a lesser degree, applies to the Asia/Pacific region (+9.7%). European equities (also +9.7%) benefitted from the widely held and growing view that the Eurozone's chances of ultimate survival were improving. Next came the USA (+9.3%), buoyed by appreciably better than expected economic data. Japanese equities thrived with a 7.9% return, largely on the view that they had become oversold in the previous quarter (-3.6%) and have now benefitted from more clearly emerging signs that the economy is beginning to recover from the devastating effects of the tsunami and earthquake. Last in the equity returns came the UK with a still very respectable 6.1%. However, it was the laggard in the league tables as it became clear that the austerity programme would be deeper and longer than had generally been anticipated.

Within the Fixed Interest classes only Non Gilts All Stocks (+2.8%), i.e. Corporate Bonds made progress due to the attraction of their superior yields and the view that defaults were less likely than in the past. Both Gilts (-1.7%) and Index Linked Gilts (-2.0%) produced negative returns having been driven down at the end of the previous quarter to historic record low yields, especially when adjusted for inflation. These falls were hardly surprising in view of the advances that gilt stocks achieved for 2011.

The influential factors of most major import within the regions were as follows:-

- The UK and the USA agreed to co-operate in releasing strategic oil stock piles to reduce strengthening fuel prices. This was helped by Saudi Arabia's announcement that, if necessary, the Kingdom would boost output by as much as 25% with a view to dampening down the price of Brent crude oil.

- Unsurprisingly, the news emanating from the Eurozone continued to be dominated by headlines from Greece. Indeed, Grecian issues continued to infect all the Eurozone countries, although to a perceptibly lower extent than heretofore. On a more promising note, merger and acquisition volumes were approximately 14.0% higher in the quarter as corporations became less nervous for the future.

- There is evidence that levels of leverage are still continuing to fall.

- Within the global nuclear arena, in a surprise breakthrough, North Korea agreed to suspend nuclear tests and long range missile launches. However, in Iran the Ayatollah Ali Khomeini, the supreme leader, in the face of concerted international pressure has re-iterated that "Tehran will never retreat over its nuclear programme". Due to supply disruption, specifically caused by Iran the price of Brent crude rose to US$121 on 20th February. The obvious fear is that a nuclear standoff with Iran could lead to military confrontation.

- Kofi Annan, the joint United Nations and Arab League special adviser to Syria is heading up the international effort to press Syria into peace talks.

Regional Influences

UK

The Budget

The Chancellor of the Exchequer, who had very little room for fiscal manoeuvre, appeared to do all that he could in the UK's straitened austerity circumstances. The most salient points were as follows:-

- Corporation tax is to be reduced by 1.0% to 24% in April and to 22% by 2014.

- The personal tax allowance is to increase to £9,205 in 2013 from the present £8,105. However, allowances for those aged over 65 are to be frozen from April 2013 at £10,500 until they fall into line with allowances for younger tax payers.
- Stamp duty on houses valued in excess of £2M is to be raised to 7% and, for houses bought through companies, a rate of 15% will be charged.
- The Office for Budget Responsibility believes that the country will avoid a technical recession and marginally revised its GDP forecast for 2012 to 0.8% from 0.7% and expects growth of 2.0% in 2013. The rate of unemployment is forecast to peak at 8.7% in 2012 before declining to 6.3% by 2014.

Positive Influences

- The Chancellor of the Exchequer indicated that he is aiming to launch a 100 year gilt issue in order to lock in the UK's low borrowing costs.
- The Office for National Statistics says that, for the 3 months to January the number of unemployed people stabilised at 2.67M with the unemployed rate unchanged at 8.4%.
- On the 8th March, unsurprisingly, the Bank of England held interest rates.
- The Bank of England estimates that GDP will grow by 3.0% in 2013. By comparison, the Confederation of British Industry (CBI) estimates that GDP for 2012 will be 0.9% rising to 2.0% in 2013.
- The consumer price index eased to 3.4% in February from 3.6% in January versus estimates of 3.3%. This compares with a peak of 5.2% in September 2011.
- The Purchasing Managers' index for March increased to 52.1 from 51.6 in February. This was better than expected despite the rise in oil and transport prices.

Negative Influences

- In similar vein to Moodys, the rating agency Fitch has downgraded the outlook on government bonds to negative.
- The banks are raising the cost of mortgages, credit cards and overdrafts despite the Bank of England keeping interest rates at 0.5%.
- There are signs that the government's quantitative easing programme is punishing pension annuities and driving down the rates at which they are fixed.
- The lack of international hub capacity of the UK's airports is placing the country at a distinct competitive disadvantage to airports such as Frankfurt and Paris.
- On 9th February the Bank of England announced that it intends to issue a further £50B of quantitative easing over a three month period which would take the quantitative easing target to £325B.
- February retail sales declined by 0.8% following two months of increases.
- GDP for the fourth quarter of 2011 was revised down to -0.3% from the previous estimate of -0.2%.

USA

Positive Influences

- On 13th March the Federal Reserve Board held interest rates and stated that it would keep them unchanged "at least through to late 2014".
- The Bureau of Economic analysis revised up its estimate of GDP growth for the fourth quarter of 2011 to 3.0% p.a. from 2.8% p.a.

- President Obama proposes to cut the rate of corporation tax from 35% to 28%.
- On 15th February yields on investment grade corporate debt of high quality companies hit record lows.
- In the week ending 17th March the Labour Department stated that jobless claims fell by 5,000 to 348,000, the lowest level since February 2008.
- Durable goods sales orders advanced by 2.2% in February against the 3.0% fall in January.
- Despite the high cost of energy, the US Energy Information Authority reported that, at the end of March, crude oil inventories were approaching record levels.
- The National Association of Realtors reported that existing home sales in February grew by 0.9% for the month, and by 8.8% on an annual basis.
- In March the unemployment rate recorded a miniscule change to 8.2% from 8.3% in February

Negative Influences

- Somewhat surprisingly, the Institute of Supply Management's index of manufacturing activity fell to 52.4 in February from 54.1 in January.
- On 29th February, against a background of improving economic data, Mr Bernanke of the FED, in his testimony to Congress, struck a relatively cautionary note, particularly with regard to consumer spending when he stated "fundamentals continue to be weak".
- In March only 120,000 new jobs were created against expectations of 205,000.
- The Commerce Department reported that the December trade gap rose by 2.7% to US$48.1B making a total increase for 2011 of US$558B.
- The Conference Board's index of consumer confidence receded to 70.2 in March from 71.6 in February which was better than feared.

Europe

Positive Influences

- On 9th March Greece officially avoided default. A pivotal factor was the sufficient support from Greece's private debt holders to allow €206B of debt restructuring.
- On 29th February the European Central Bank injected an extra €525B into the Eurozone financial system. This injection took the total amount supplied to banks in the three year programme to over one trillion euros. 800 banks took advantage of this second phase which was specifically intended to improve liquidity and spur bank lending. This refers to the Long Term Refinancing Operation introduced by the ECB. Understandably, this has been most popular with the banks enabling them to borrow funds very cheaply for lending at much higher rates, thus increasing their net interest spreads (profit margins).
- There are early signs from the French electorate that the prospective presidential candidate Francois Hollande is proving a very real threat to the incumbent Nicolas Sarkozy.
- Eurozone inflation in March inched back to 2.6% from February's 2.7%. This compares with the ECB's target rate of "below but close to 2.0%".
- On 30th March, the Eurozone finance ministers agreed to enlarge their fiscal bail out programme to €700B (a 40% increase). This fund is scheduled to commence in July and is to be called the European Stability Mechanism.

- The IFO Institute of Germany's index of business sentiment rose 0.1 to 109.8 in March.
- Germany's unemployment rate fell by 18,000 in March to 2.84M or 6.7% of the workforce. This was a record low since re-unification in 1990.
- French GDP rose by 0.2% in the final quarter of 2011 and by 1.7% on an annualised basis (compared with a 1.4% rise in 2010).

Negative Influences

- On 8th March the European Central Bank held interest rates at 1.0%. However, the ECB cut its economic growth estimate for the Eurozone for 2012 to -0.1% from +0.3% and its estimate for 2013 from 1.3% to 1.1%.
- Unexpectedly German industrial orders fell 2.7% in January.
- The Dublin government announced its intention to hold a referendum on the Eurozone fiscal pact. This effectively means that the Irish constitution requires the Treaty to be put to a vote. This could take as long as 3 months to organise.
- In 2011 Spain's public sector deficit reached 8.5% of GDP versus the agreed target of 6.0% imposed by the European Union. The recovery programme continues to be affected by strikes.
- Eurostat reported that the Eurozone unemployment rate in February increased to 17.1M people representing 10.8% of the workforce. This was the tenth consecutive monthly increase. This overall figure masked a wide divergence amongst the constituent countries with Spain recording a rate of 23.6%.
- The Eurozone's Purchasing Managers' Index for March fell to 48.7 from the 49.3 recorded in February.

Japan

Positive Influences

There was a paucity of positive news other than to suggest that the current government is proving marginally more successful than most of its predecessors.

Negative Influences

- The January current account deficit reached ¥437B (US$5.4B), the biggest shortfall since records began in 1985.
- The Finance Ministry reported that the January trade deficit represented a record low. Imports increased by 9.8% whilst exports slumped 9.3%.
- In the fourth quarter of 2011 GDP growth fell 2.3% p.a.

Asia/Pacific/Emerging Markets

Positive Influences

- China's CPI inflation rate was 3.2% in February, down from 4.5% in January. Industrial production in February expanded by a substantial 11.4% p.a. whilst retail sales in January and February increased by 14.7% p.a.
- China's purchasing managers' index for March grew to 53.3 from 51.0 in February. This compared with the consensus view for a fall.

- China has started to invest in Brazil via a partnership between China's state run Export Import Bank and the IDB Bank of Brazil.

Negative Influences

- Vladimir Putin's election on 6th March caused a substantial fall in the Russian stock market. This election result could be a herald of further unrest and the inevitable accusation of vote rigging. One way or another it could well prove to be Putin's last 6 year term in office.
- The president of Brazil Dilla Rousseff, representing the centre left party, is attempting to protect exports. Industrial output fell 2.1% in January.
- Brazil's rate of GDP growth in 2011 was 2.7%, markedly lower than in 2010 and the lowest since 2003.
- During February Chinese exports fell 23.6% and contributed to a trade deficit of US$31.5B. The central bank stated "this trade deficit is a positive sign that the renminbi exchange rate is close to its equilibrium level". The bank is attempting to internationalise the currency.
- China has set a growth rate target of 7.5% down from 8.0%. This is the first time that the official target has been below 8.0% since 2004.
- India's GDP growth rate for the fourth quarter of 2011 fell to 6.1% partly due to a slowdown in manufacturing and mining. As a result, the GDP growth rate target for the year of 6.9% has not been achieved.

Conclusion

The influencing factors, particularly for equity market direction on a regional basis are as follows:-

In the UK

- The coalition government will need to face up to recent criticism, especially in the budget aftermath, and to demonstrate more overtly that they have the policy blocks in place to restore economic confidence and to avoid recession.

In the USA,

- It will be essential for economic data to maintain its current improving trend with better than expected GDP growth together with President Obama's ability to cope with the rising price of energy. Right now it looks as though his republican challenger will be Mitt Romney. In that event Obama should be able to win over the electorate, but securing a working majority in both the Senate and Congress could still be a problem. It goes without saying that such majorities are absolutely essential for the enactment of the strong legislation that America needs. With regard to the actions of the Federal Reserve Board, it currently appears less likely to make further increases in its Quantitative Easing Programme.

In Europe

- The Eurozone problems will rumble on with all the attendant market anxieties. For the moment the consensus opinion appears to be that the combined reserve funds and firewalls etc. are deemed to be sufficient to secure the future of the Eurozone, even with the inclusion of Greece. As Mario Draghi of the ECB stated in somewhat Delphic style "the worst is over, but there are still risks".

In Asia/Pacific/Emerging Markets

- As mentioned, the long running nuclear concerns in both Iran and North Korea.
- Rumblings from the Argentinian government over ownership of the Falklands.
- In Burma, the recent success of Aung San Suu Kyi in the Burmese by-elections. This certainly puts down a challenge to Prime Minister Thein Sein to introduce democracy to the nation.
- In China, the government will continue to flex its global muscles and will maintain its programme of internationalising the renminbi. GDP growth will likely be in the 7.0% to 8.5% range. Prospects of a "hard landing" seem misplaced.

So, whither the course of the respective asset class markets? Comments thereon are listed below.

The surprisingly strong performance for equities in the first three months of the year serve to temper the outlook for the rest of 2012. However, all things considered, after this heady start, it seems reasonable to conclude that, in the shorter term, most equity markets will now pause for breath and could be impacted by a degree of profit taking by shorter term investors. Therefore, markets could be flat to lower through the summer to early autumn. After which, if it can be seen that positive factors are in the ascendant and the grounds for optimism are in fact materialising then equity markets could shine again, thereby achieving worthwhile gains for 2012 as a whole. For this to happen there will also need to be further commitments from the currently high holdings of institutional cash accompanied by further switching out of fixed interest into equities. As ever, there will be bouts of over optimism and over pessimism as markets wax and wane, mirroring the latest macro economic data and geo-political events. It therefore follows that the course of equity markets both in the UK and globally will continue to be volatile trading between fear and confidence.

In the longer term, for the sunny investment uplands to be attained, the essential ingredients will need to be further reductions in leverage, decreasing inflation, the maintenance of low Central Bank interest rates, consistently rising corporate earnings providing well covered dividend increases and aggregate world growth in excess of 4.0%, albeit with a distinct bias towards the Eastern Hemisphere.

With regard to Fixed Interest markets, their direction between now and the year end will mostly depend on the level of interest rates as is so often the case. These seem destined to stay low for the time being, but towards the year end there may be pressure for modest increases. n the light of this and the still very low yields on sovereign debt in particular, it seems plausible to suggestthat the direction of Fixed Interest returns will be flat to down. Certainly for the year as a whole Equity returns should be well in advance of Fixed Interest returns .

Property should continue to produce positive, if somewhat pedestrian returns. However, some current valuations appear overly inflated. It remains important to have a judicious mix of the various sub sectors of property both inside and outside the UK in order to achieve a sufficiently wide spread of risk.

Private Equity and Infrastructure should produce worthwhile returns with the latter asset class becoming increasingly popular with investors and of course with the Coalition Government as it seeks to find pension fund support for its fundamental infrastructure needs for rebuilding the national transport system. After relatively soft performance patches, both Hedge Fund of Funds and Global Tactical Asset Allocation (GTAA) should be able to make positive headway on the back of increased market volatility together with the likelihood of less correlation. Both these factors remain very much grist to the mill for these two asset classes. Sooner rather than later it will be essential for Hedge Fund of Funds to address their markedly high fee structures. Elsewhere in the alternative asset class space there is likely to be even more pension fund interest in Absolute Return Multi Asset managers.

Valentine Furniss
10th April 2012

Investment Update for the Month of April 2012

The index returns and exchange rate movements for the month of April are shown in the tables below.

	Indices	M/e 30.04.12
		%
Equities		
UK	FTSE All Share	-0.3
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	-0.4
North America	FTSE North America	-2.1
Emerging Markets	MSCI Emerging Markets Free	-2.8
Japan	FTSE Developed Japan	-4.7
Europe	FTSE Developed Europe (ex UK)	-5.5
Fixed Interest		
UK Gilts	FTSE British Government All Stocks	0.4
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	-0.2
UK Index Linked Gilts	FTSE British Government IL Over 5 years	-0.4
Property	IPD*	N/a
Cash	Merrill Lynch LIBOR 3 Month	0.1

* The IPD UK Property return in March 2012 was 0.2%. The returns for April 2012 are not yet available.

Currency movements for month ended 30th April 2012

Currency	31st March 2011	30th April 2012	Change %
USD/GBP	1.598	1.624	+1.6
EUR/GBP	1.200	1.227	+2.3
USD/EUR	1.332	1.324	-0.6
YEN/USD	82.295	79.845	-3.0

It was hardly surprising that, after the high equity returns achieved for the quarter ended 31st March, markets for the month of April would show some downward reaction.

At the top of the table, despite a marginally negative return, it was heartening to see the UK (-0.3%). Part of the reason for this was the increasing perception that, within Europe, the UK was further down the road in addressing its economic problems and applying the necessary austerity measures to its population. To a degree both the UK equity market and its currency were seen as relatively safe havens by both domestic and international investors despite the political problems and the decreasing regard in which the coalition government is held having recently slipped on several emotive banana skins. Next in the rankings came Asia/Pacific (-0.4%) which continues to produce superior economic growth rates to its Western Hemisphere counterparts. The USA returned a negative 2.1% despite some better than expected corporate results. However, investors were no doubt concerned by the weak leadership of the incumbent Democratic party and the background of political point scoring ahead of the presidential election in November. At least we are to be spared a president with the name Newt! Somewhat surprisingly Emerging Markets (-2.8%), unlike the Asia/Pacific region, was unable to produce the momentum of its first quarter gains of +11.0%. Japan returned -4.7% with a major influence being the January current account deficit which was the largest since records began in 1985. And finally came Europe as back marker (-5.5%) reflecting the continuing wall of investor worries over the unresolved financial and economic problems affecting the Eurozone with no firm resolution as yet in sight despite the concerted efforts of all involved particularly the IMF, the ECB and Germany.

Fixed Interest returns were not greatly changed with gilts producing the only positive return of 0.4% as they were seen as more secure than corporate bonds returning a marginal 0.2% and index linked gilts declining by -0.4%.

During April the principal events and macro economic data within the regions were as follows:-

UK

- In the first quarter of 2012 dividend payments from UK listed companies were estimated to have increased by 25%. This figure was inflated by some special one-off dividends.
- On 23rd April sterling reached a level of €1.2273 for the first time since August 2010. This was clear evidence of "haven" buying against the background of the continuing turmoil in the Eurozone.
- George Osborne, the Chancellor of the Exchequer, committed £9.3B to the International Monetary Fund as part of a $400B global injection of cash intended to cope with any future crises in the Eurozone.
- CPI inflation inched up to 3.5% in March from February's 3.4%. The Bank of England quoted that inflation remained "uncomfortably above target".
- The Office for National Statistics (ONS) reported that the trade deficit increased from a revised £2.5B in January to £3.4B in February. Exports decreased by 5.3% and imports by 0.9%.
- It was calculated that, at the end of 2011, 5.6% of home owners were in negative equity.
- The March purchasing managers' index for the services sector increased to 55.3 from 53.3 in February.
- The purchasing managers' index of the construction industry was 56.7, up from 54.3 in February. This was due to a rise in commercial and civil engineering schemes.
- Household indebtedness to energy suppliers is estimated to have doubled in the last 5 years.
- Contrary to the majority opinion of economists and other forecasters, GDP growth for the first quarter of 2012, a negative 0.2% served to place the UK in technical recession. However, most economists consider the figures to represent a statistical aberration owing to the figures for construction activity which are historically volatile. Partly to blame for this disappointing result was the fall in Eurozone demand. On a more positive note, the Confederation of British Industry released a survey of the manufacturing sector appearing to show improving orders and output volume in the first quarter of 2012. The UK GDP is now 4.3% below its peak of 4 years ago.

USA

- The University of Michigan's measure of consumer confidence receded to 75.7 in April from 76.2 in March.

- On 25th April the Federal Reserve Board left interest rates unchanged.
- On the whole, first quarter corporate earnings have been better than expected.
- The Institute for Supply Management reported that its index of manufacturing rose to 54.8 in April from 53.4 in March. In direct contrast, the Institute's index for the services sector in April was unexpectedly poor at 53.5 down from 56.0 in March.
- New jobs created in April were a disappointing 115,000 compared with estimates of 162,000.

Europe

- The Bank of Greece estimates that the economy will shrink by about 5.0% in 2012 representing the fifth consecutive year of contraction. The bank's previous estimate was 4.5%. This compares with a 6.9% fall in 2011.
- The Eurozone's purchasing managers' manufacturing index for April contracted to 46.3 from 48.4 in March whilst the index for the services sector decreased to 47.9 from 49.2.
- Spain re-entered recession for the second time since 2009 with GDP in the first quarter of 2012 falling by 0.4% compared with a 0.3% drop in the previous quarter. The official government estimate for GDP growth for 2012 is for a decrease of 1.7%.
- On 23rd April the Dutch government fell due to disagreement over the country's fiscal policy.
- Germany's IFO business climate index for April showed a rise to 109.9 from the March figure of 109.8. This was the sixth consecutive monthly improvement.
- The International Monetary Fund is confident that the extra $400B that is being raised will prove sufficient to cope with any further crises in the Eurozone.
- In Germany the ZEW Institution's economic sentiment index for April grew to 23.9 (March 22.3) representing the fifth consecutive monthly increase and the highest level since June 2010.
- There is evidence that international investors have been selling large volumes of Eurozone bonds.
- Eurozone industrial output for February decreased by 1.8% p.a.
- Spanish job losses in the first quarter of 2012 totalled 367,000 resulting in an unemployment rate of 24.4%.
- On 4th April the European Central Bank, as expected, left interest rates unchanged.
- Italy's purchasing managers index for April was markedly lower at 43.8 from the March figure of 47.9.
- The Eurozone's rate of unemployment in March rose to 10.9% representing the eleventh successive monthly rise.

Japan

- The trade deficit for the year ended 31st March 2012 decreased to ¥4.4T from a surplus of ¥5.3T in the previous year.
- As a direct result of the Fukushima crisis, Japan is switching from nuclear power and is to close all reactors which had accounted for one third of the country's electricity supply.

Asia/Pacific

- China's inflation rate in March rose to 3.6% from 3.2% in February.

- China’s GDP for the first quarter of 2012 grew to 8.1% versus estimates of 8.3%. This was the slowest pace for 3 years.
- China’s manufacturing index for April advanced to 49.1 from 48.3 in March.

Conclusion

Since the investment report for the quarter ended 31st March 2012 the typical influences to affect stock markets have, on balance, been mixed. The future factors likely to most affect the principle markets are as follows:-

In the UK, the ability of the coalition government to maintain its stringent austerity measures is being increasingly challenged. A litmus test for the government will be the forthcoming local elections where citizens can be expected to air their respective grievances with a vengeance. A much needed beneficial factor will be maintenance of the Bank of England’s interest rate at ½%.

In the USA, economic growth should be boosted by cheap natural gas lowering the overall cost of energy.

In the Eurozone, its very future will continue to be affected by the following malign influences. The bottom line is that fiscal union will be hard to achieve amongst the 17 members. It will also remain difficult for the Eurozone countries to grow their way out of their poor economies. For some of the smaller and weaker countries this currently appears well nigh impossible. An additional matter of concern will continue to be the shrinkage of the European bank balance sheets which could have a negative effect on financial stability.

In the Asia/Pacific and Emerging Markets regions these economies should continue to demonstrate better growth than in most of the Western Hemisphere countries. Trading within their own regions should be robust. However, their exports to the Eurozone, the UK and, to a certain extent, the USA are likely to continue to be weak.

All things considered, both here in the UK and globally, investor feel good factor is by no means manifest. However, moving forward to the end of 2012, it seems reasonable to suggest that, at that time, investors, both private and institutional, will be feeling sufficiently confident to commit some of their liquidity to the market place. This should result in higher equity levels. But, as mentioned in the quarterly report, markets are likely to remain highly volatile. A background of unbridled optimism seems a long way off. Much will depend on the level of world growth. In that regard the International Monetary Fund upgraded its growth estimate for 2012 from +3.3% to + 3.5% and for 2013 from +4.0% to +4.1%.

In sum, an attitude of underlying caution is still warranted.

Valentine Furniss

STATEMENT OF INVESTMENT PRINCIPLES

INVESTMENT RESPONSIBILITIES

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

a) Determining the overall investment strategy and strategic asset allocation.

b) Appointing the investment managers, the independent adviser and the actuary.

c) Reviewing investment manager performance and processes regularly.

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

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

a) Advising and reporting to the Pension Fund Committee.

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

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

4 The investment managers are responsible for:

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

b) Preparation of monthly and quarterly reports detailing activity, investment performance and future strategy, and attendance at the Pension Fund Sub Committee.

5 The actuary is responsible for:

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

b) Providing annual FRS17 / IAS19 valuations.

c) Providing advice on the maturity of the fund.

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

The Management of Risk

7 There are three main definitions of risk:

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

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

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

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

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

10 The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways. First, to enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, reinvest income from dividends or interest received. Second, assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met. Third, the Brent fund is mature, there being many more pensioners than working members - to the extent that 62% of assets are 'owned' by pensioner liabilities. Therefore there is a need to consider the risks involved in pursuing a long-term equity based strategy when a market correction, and lower dividend payments, could reduce the value of the fund. There is currently a 'mismatch' between the allocation of more than 90% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the fund. However, this is balanced by; first, the expectation that equities will generate additional returns to facilitate the payment of both pensioners' and active members' benefits; second, it is calculated that contributions from employers and employees will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to reinvest income and change their stock selections without concern about the need to realise assets quickly. However, most assets are liquid and invested in recognised stock exchanges.

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

Investment Objectives

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

a) UK equities – to match the FTSE All share index.

b) Overseas equities (developed markets) – to match the FTSE All World ex UK Index.

c) Overseas equities (emerging markets) – to outperform the FTSE AW All emerging index by 2% per annum over rolling three year periods.

d) Fixed interest – Global Dynamic Bond Fund – to achieve a return of 6% per annum over rolling three year periods.

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

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

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

g) Hedge funds – to achieve an average return of 9% per annum (LIBID + 4%).

h) Infrastructure – to achieve an average return of 10% - 15% per annum, comprising both income and capital growth.

i) Diversified growth – to achieve a return of inflation plus 3.5% per annum over rolling three years periods.

12 The achievement of these targets should attain a real rate of return of 4% - 5% above inflation per annum over rolling three-year periods (see asset allocation for returns expected from each market). The 2010 Actuarial Valuation anticipated a return of gilts plus 3% per annum, giving a total return of 7.5% per annum.

Asset Allocation

13 Three general points should be noted. First, LGPS regulations require that funds achieve ‘proper diversification’, which may be considered in terms of ensuring that investments are spread through a number of markets whose movements are not closely correlated. This affords some protection in the event of market corrections, and allows gains from a variety of sources. Second, equities have been the best performing asset class over the very long term, property has performed well over ten years but has tended to be slightly behind equities, whereas bonds and cash have usually performed less well. Third, exposure to fixed interest gilts and corporate bonds provide income and increased certainty of returns as appropriate for a mature fund. Fourth, exposure to other asset classes adds to diversification and allows additional returns in less well researched markets. The Myners’ report advocated that funds should consider all the main asset classes in setting its asset

allocation, allowing the Fund access to different risk premia (such as time, currency and different asset valuations).

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

Asset Class	% of Fund %	Expected Return p.a %	Benchmark
UK equities	14	6 - 9	FTSE All share
UK Small companies	4	6 - 9	FTSE Smallcap ex IT
O/seas equities – dev.	19	6 - 9	FTSE AW ex UK
O/seas equities - EM	8	6 - 9	FTSE AW - Emerging
UK Fixed interest	15	6	Absolute return
Diversified Growth	6	5 - 9	LIBID + 3.5%
Property	8	5 - 9	IPD and absolute return
Private equity	10	10 - 15	Absolute return
Hedge funds	10	5 - 9	LIBID + 4%
Infrastructure	5	10 – 15	Absolute return
Cash	1	1 - 5	Cash

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

16 Asset allocation is reviewed regularly to consider new opportunities that may arise. The expected returns detailed above are taken from forecasts made by the actuary and investment managers. It is anticipated that equities will not outperform by the same margins seen in the twenty-year period 1980 – 1999, but it is expected that the asset class will (over the long term) outperform gilts. The next major review of asset allocation is expected to be in 2014, but allocations will be considered at least annually.

Investment Manager Arrangements

The current managers are:

UK Equities	Legal & General Investment Management
Overseas Equities	Legal & General Investment Management

	(developed markets), Dimensional Fund Managers (emerging markets)
Fixed interest	Henderson Global Investors
Property	Aviva Investors
UK Smaller companies	Henderson Global Investors
Private Equity	Yorkshire Fund Managers
	Capital Dynamics
Hedge Funds	Fauchier Partners
Diversified Growth	Baillie Gifford
Infrastructure	Alinda Partners

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

Investment Restrictions

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

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

b) invest more than 10% of the fund in a single holding (unchanged), or more than 25% of the fund in unit trusts managed by any one body.

c) excluding loans to the government, lend more than 10% of the value of the fund to any one borrower.

d) contribute more than 5% of the fund to any single partnership.

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

19 The reasons for this approach are:

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

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

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

years as part of the asset allocation review.

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

a) undertake stocklending arrangements.

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

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

d) borrow.

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

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

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

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

Manager Discretion

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

Monitoring activity and performance – Managers, adviser and trustees

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

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

27 The Director of Finance and Corporate Services monitors managers' activity on a daily, monthly and quarterly basis, and is in regular contact with investment houses. The Pension Fund Sub Committee receives quarterly reports from the investment

managers and the Director of Finance and Corporate Services detailing activity and investment performance.

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

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

Review of the Implementation of Investment Policy

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

31 Amongst the criteria by which managers will be selected are:

a) Investment process, including investment philosophy, research, the asset allocation process, controls on stock selection, and risk controls.

b) Past performance, including spread of results and volatility.

c) Personnel, including levels of experience, staff turnover, and the individual managers offered.

d) Administration, including systems, contacts, references from other customers, and the ability to meet requirements on reporting.

e) Resources, including the number of professionals employed, the number of funds serviced, the number of funds gained or lost over the last 5 years, and the controls on over-rapid growth.

f) Professional judgement.

32 A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent underperformance over six successive quarters will automatically lead to a review of the mandate.

Corporate Governance and Socially Responsible Investment

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

a) The UK and overseas equities manager, Legal & General, will vote on behalf of the fund on corporate governance issues overseas. The manager supports the fundamental principles expressed in the Shareholder Bill of Rights adopted by the Council of Institutional Investors, but also has a close knowledge of overseas companies that will facilitate careful consideration of individual issues. The manager does not make moral judgements on individual stocks.

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

Learning and development for councillors and officers

34 Councillors have agreed steps to support the learning and development of members of the Pension Fund Sub Committee. In particular, there will be regular training opportunities through on line packages or training sessions before sub committee meetings. To date, there have been learning and development presentations on such items as the actuarial valuation, and emerging market, overseas equity, private equity and fixed interest investment.

Representation

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

Communication

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

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

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

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

Treasury Policy

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

MYNERS REVIEW OF INSTITUTIONAL INVESTMENT IN UK

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

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2	**Clear objectives – trustees should set out an overall investment objectives(s) for the fund that takes account of the scheme's liabilities, the strength of the employer's covenant as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.**	
	Trustees should set out an overall objective for the fund that: • represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employers and employees; and • takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.	The overall objective for the fund (a real return of 5% per annum) has been set after an asset allocation review and the most recent Actuarial Valuation (2010), as well as the Funding Strategy Statement. The objective takes into account contributions, likely market returns and appetite for risk.
	The administering authority should consider the advisability of investing in a wide variety of investments, and the suitability of particular investments and types of investment.	Brent has considered the suitability of a wide variety of investments and has diversified the fund significantly.
	The committee should demonstrate that it has sought proper advice on appropriate investment objectives. Advisers and managers should be appointed in open competition and should be set clear strategic investment performance objectives by which they will be measured.	Brent has appointed a number of managers and an independent investment adviser. Managers have clear investment objectives over both the short and medium terms, and performance / approach are reviewed regularly. The quality of the investment adviser's advice is assessed on a three year basis when reappointment / replacement are considered.
3	**Risk and liabilities – in setting and reviewing their investment strategy, trustees should take into account the form and structure of the liabilities. These include the implications for local tax payers, the strength of**	

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

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

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

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

LONDON BOROUGH OF BRENT PENSION FUND

CORPORATE GOVERNANCE POLICIES

General

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

Companies

Directors

- **The Board**

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

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

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

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

- **Chairman and Chief Executive**

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

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

- **Board Balance and Independence**

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

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

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

- **Appointments to the Board**

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

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

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

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

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

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

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

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

- **Performance Evaluation**

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

- **Re-election**

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

<u>Remuneration</u>

The Level and Make-up of Remuneration

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

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

- **Remuneration Policy**

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

- **Service Contracts and Compensation**

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

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

Accountability and Audit

Financial Reporting

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

Internal Control

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

Audit Committee and Auditors

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

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

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

Relations with Shareholders

Dialogue with Institutional Shareholders

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

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

Constructive Use of the AGM

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

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

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

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

Institutional Shareholders

Dialogue with Companies

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

Evaluation of Governance Disclosures

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

Shareholder Voting

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