BRENT COUNCIL

Brent Pension Fund Annual Report and Accounts 2011/12’

I N D E X

Message from the Chair

Brent Pension Fund Sub Committee

2011/12 was a year of slow growth and volatile markets. The earthquake and tsunami that rocked Japan led to falling markets and major impacts on the world supply chain of components. This was followed by concerns about debt restructuring in Greece and Ireland, and support for Portugal, leading to wider worries about debt in both Spain and Italy. Equity markets have been undermined by continuing concerns about the eurozone that have only been partially calmed by support for Greece and injections of liquidity by the European Central Bank. Economic growth has slowed sharply in Europe, UK and Japan. However, the year has ended with more quantitative easing, renewed optimism that USA is recovering – in an election year – and that there are signs of growth in the emerging markets.

As said above, markets have been volatile. Government bonds have risen sharply, and yields declined, as quantitative easing and the UK safe haven status have given excellent returns. Equities fell sharply in the second quarter of the year on fears about growth and the eurozone, but have recovered on renewed optimism on USA growth and company profits. The market takes the view that quantitative easing will be good for equities. UK commercial property has continued to be a desirable asset, at least in London. Private equity and infrastructure have continued to provide strong returns, though an era of low interest rates is making progress more difficult.

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The London Borough of Brent Pension Fund (the Fund) returned -0.2%, against the benchmark of 2.8% and the average local authority 2.6%. The value of the Fund rose from £486 million to £ million. The main aspects of this performance were:-

- Asset allocation added value, as equities underperformed other assets. However, the best performing assets were government fixed and index linked gilts - the manager had no exposure to index linked gilts, and lower exposure to fixed interest gilts. The small allocation to European property also lost money as a result of falls in the value of the euro and the previous 'bubble' in the price of commercial property.

- The hedge fund of fund manager, Fauchier Partners, lost value as a number of managers struggled. In particular, managers that had previously outperformed and have outstanding long term records have underperformed in volatile markets that have not rewarded their stock picking. Fauchier has restructured the fund to add managers who have good processes and are prepared to take on considered risk.

- Although the infrastructure and private equity managers made positive returns, both portfolios are immature and should add value in future years. The private equity manager also struggled with volatile equity markets (private equity valuations are in part a reflection of public equity markets) and with the falling value of the euro.

- UK equity stock selection was less successful. The UK small companies team at Gartmore underperformed in the sharply rising markets of January and February 2012. The UK in house team did not invest new funds quickly enough in the same rising markets. The new emerging markets manager, Dimensional, lost value as small companies and value stocks fell in value in the third quarter of 2011.

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

- Members have appointed an active emerging markets manager – Dimensional Fund Advisers – who have a process that should lead to good returns in the future. The manager concentrates on value stocks and smaller companies.

- There has been a review of the asset allocation for the Fund, supported by the consultancy Mercers. This has led to a number of changes:- the termination of the Global Tactical Asset Allocation mandate, reduced exposure to fixed interest (and a change to the investment approach), increased exposure to infrastructure, and a search for a Diversified Growth Fund manager to be appointed in July 2012.

- It has been decided to transfer the management of the UK FTSE350 equity fund from the in house team to Legal & General (LGIM). The change will reduce costs, and LGIM have excellent processes and a good long term record. The portfolio will continue to be managed on a passive basis.

- Continued progress in gaining exposure to private equity and infrastructure.

The sub committee tackled a number of other important issues during the year. The main decisions were to appoint Hymans Robertson as actuary to the Fund, and to take further steps to improve learning and development for councillors so that they are better equipped to review investment decisions in an ever more complicated world.

Brent joined various other local authorities to tender its benefits contract during the year. The new contractor is Capita Hartshead, replacing the LPFA. The new contract will offer lower charges and the opportunity to improve processes.

During the year there were a number of proposals about revising the Local Government Pension Scheme. Although the final scheme is not fully agreed, it would appear likely that the scheme will continue to be a defined benefit scheme, but that benefits will be based on career average pay and that inflation will be measured by the Consumer Price Index. The future retirement date will be linked to the state retirement age – rising to 66 years in 2016. It is uncertain whether or not employee contribution rates will rise. Any changes will be introduced in 2014.

For 2012/13, the main focuses will be on transferring assets to new managers, improving the performance of the Fund, and considering the impact of any changes to the Local Government Pension Scheme.

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

College of North West London	Mr. A. Patel
GMB	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund Pension Fund Sub Committee responsibilities and learning & development

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 2011/12, members attended sub committee meetings and received training as follows:-

Member	Meetings attended	Learning & development attended
S. Choudhary	4	6
G. Crane	1	2
B. Patel	4	4
J. Bacchus	3	4
S. Hashmi	4	3
D. Brown	3	2
W. Mitchell Murray	3	4
A. Patel	2	2
G. Fraser	1	1

Training was an amalgam of on-line, conferences and presentations by managers and consultants on key areas such as asset allocation.

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
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	86.5	17.6
Legal & General Investment Management (Helen Gawkrodger)	Global Equities	117.9	24.0
Henderson Global Investors (Jennifer Ockwell)	UK Small Companies	15.9	3.2
Dimensional (Chris Morgan)	Emerging Markets	31.0	6.3
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	82.6	16.9
Aviva Investors (Catriona Allen)	UK and European Property	34.7	7.1
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.0	0.4
Capital Dynamics (Angela Willetts)	Private Equity	63.6	13.0
Fauchier Partners (Alex Dolbey)	Hedge Fund	40.5	8.3
Alinda Capital Partners (Simon Riggall)	Infrastructure	15.5	3.2
		490.2	**100.0**

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 Mellon (UK Equities & Property) – contact Beth Dowling-Jones

Actuary (Contact – Douglas Green)
Hymans Robertson 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, International Accounting Standard 19 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	Anthony Dodridge	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
Principal Pensions Consultant	Anna McCormack	0208 937 3936

Pensions contractors
Capita Hartshead 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 Danny Snow	Capita Hartshead 01737 366018
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 2012

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 2011/12 were based on the actuarial valuation carried out as at 31 March 2010.

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 £11.9M. 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

List of scheduled bodies and admitted bodies	Employee contributions	Employer contributions
Scheduled bodies	**£ 000s**	**£ 000s**
London Borough of Brent	5,539	21,424
Alperton Community School	68	266
ARK Academy	54	111
Avigdor Hirsch Torah Temimah School	2	6
Barham Park Primary School	29	119
Brent Housing Partnership	307	715
Capital City Academy	68	257
Cardinal Hinsley High School	42	164
Chalkhill Primary School	10	42
Claremont High School	32	125
College of North West London	328	1,017
Convent of Jesus & Mary RC Language College	36	142
CREST BOYS	27	107
CREST GIRLS	54	203
Furness Primary School	13	56
Granville Children's Centre	7	29
Islamia Primary School	14	58
JFS	68	259
Kilburn Park School	6	26
Kingsbury High School	112	447
Malorees Junior School	10	42
Manor Day School	41	163
Michael Sobell Sinai School	34	141
Mitchell Brook Primary School	28	117
North West London Jewish Day School	11	46
Oakington Manor Primary School	24	96
Park :Lane Primary School	13	54
Preston Manor High School	72	291
Preston Park Primary School	32	131
Princess Frederica Primary School	11	44
Queens Park Community School	57	221
Salusbury Primary School	31	128
St Andrews & St Francis C of E Primary School	14	79
St Gregory's RC School	29	103
St Joseph's RC School	26	102
St Mary's C of E School	7	28
Stonebridge Primary School	7	29
Sudbury Primary School	28	118
The Copland Community School & Technology Centre	67	264
Village School	93	383
Woodfield Primary School	11	45
	7,462	**28,198**

Admitted bodies: contributing

Age Concern	0	0
Brent Association of Disabled People	1	4
Brent Society for Mentally Handicapped Children (Mencap)	5	17
Capita	11	31
Churchill contracts Ltd	1	3
Goldsborough Homecare and Nursing Services Ltd	2	9
Local Employment Access Project	19	59
National Autistic Society	111	454
Sudbury Neighbourhood Centre	10	40
Wetton Cleansing Grounds Maintenance	8	58
Wetton Maintenance Services	5	20
Willow	3	13
	176	**708**

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 2012

Economic background

The year started badly, with the earthquake and tsunami in Japan affecting markets and confidence. The impact on global business was strong as a result of disruptions to the component supply chain. Japan itself, still the third largest economy in the world, lost both power supplies and numerous factories in the affected areas. These events were followed by further turmoil in the euro-zone, as worries about Greece, Portugal and Ireland continued to affect sentiment – no sooner had support packages been agreed than it was apparent that either additional resources / cuts were required or other markets were under pressure. Contagion spread to Italy and Spain as bond yields rose. The situation in Italy was of particular concern, as the bond market is the third largest in the world.

As the year progressed, further steps were taken to improve sentiment. The USA embarked on 'Operation Twist' aimed at reducing long term interest rates so as to encourage borrowing. In the UK, a second round of Quantitative Easing (QE) was introduced, aiming at reducing bond yields by repurchasing £50b in government bonds. However, European markets continued to deteriorate to the extent that USA banks were unwilling to lend to their European counterparts, leading to rising inter-bank rates and a looming credit shortage. The response of the ECB was to lend 489b euros to European banks, thus improving their liquidity and providing funds to support governments that were borrowing at high rates. In spring 2012, a revised Greek support deal and additional bank lending further eased euro-zone worries.

The combined affects of the euro-zone difficulties, falling Japanese production and reduced growth in China and India, was that the world economic recovery slowed sharply. Although company profits continued at high levels, companies lacked the confidence to invest in additional capacity. It is anticipated that both the UK and Europe may fall back into recession, or be constricted by very low growth rates.

Markets

Markets were very mixed in 2011/12. The details are as follows:-

a) Equities initially rose as sentiment recovered from the Japanese destruction, but fell sharply in the second quarter on fears about the crisis in the euro-zone. It was anticipated that Greece might be forced into defaulting on debt and exiting the euro, and that other European economies may follow it. However, confidence returned in the third quarter as central banks flooded markets with liquidity, either through bank lending or quantitative easing. Signs of renewed growth in USA also brought out buyers. Markets continued to rise in the fourth quarter. However, over the year as a whole equity markets fell.

b) Fixed interest saw safe haven (USA, UK, Germany, Switzerland) government bonds rise sharply in price, so that 10 year yields in UK fell to 2% yields. Although prices fell in the fourth quarter, as confidence returned, yields remain historically low. Other fixed interest assets also added value, but corporate bonds and credit did not soar in price in the same way as government bonds.

c) Although the strong central London market continued to boost UK property returns, anaemic economic growth has meant that property returns have been much lower in 2011/12. Rental growth still appears to be unlikely in the immediate future outside the capital. Some European markets also continued to improve, particularly in Nordic and Western Europe, but southern Europe saw falling prices in such areas as Italy, Spain, Portugal and Greece.

d) Private equity markets tracked their public equity counterparts, especially as Initial Public Offerings (IPOs) found little support. The USA market has been stronger, particularly in the area of social networking (Facebook and Groupon).

e) Hedge fund managers continued to struggle in volatile markets that did not reward good stock picking.

Strategy and outlook

It is expected that economic growth will slow – China to 8%, India to 6%, USA around 2.5%, World around 2.5% - 3.5% - with the possibility of recession in UK and Europe. The emphasis on debt and deficit reduction may lead to a low growth scenario for some time. There is increasing concern about high oil prices. However, interest rates should remain low for the next two years at least. In UK, inflationary pressures appear to be easing as the impact of VAT rate increases and falls in the value of sterling work their way out of the comparisons. In the euro-zone, the problems faced by Greece and other debtor nations may cause further stresses that lead to the break-up of the zone.

In the UK, low interest rates will remain while the government seeks to reduce borrowing by a combination of expenditure reductions and tax increases. This is likely to be a recipe for low growth.

In markets, it is likely that ‘safe havens’ may continue to benefit, but the extent is limited by the low interest rates on offer. On that basis, government bond yields will remain range-bound, so that diversification into other fixed interest assets may be appropriate. In equity markets, valuations are not excessive and offer opportunities, but with a low growth scenario, and market volatility as a result of the unresolved euro-zone problems, this may be optimistic. The USA may not be as supportive going forward, given the legal requirements to reduce expenditure / raise taxation. UK property markets by subdued economic output, falling real incomes, restricted credit and high unemployment. The retail market will continue to suffer a severe squeeze. In Europe, there will continue to be divergence between northern and southern Europe.

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 A: Employer Contribution Rates

	2010/11 per cent	2011/12 per cent	2012/13 per cent	2013/14 per cent
Brent	22.9	25.1	26.9	27.4

Table B: Fund membership and contributions 2007/08 to 2011/12

	2007/08	2008/09	2009/10	2010/11	2011/12
Number of contributing employees as at 1 April	5,922	6,075	5,896	5,461	5,198
Deferred	5,380	5,713	6,096	6,595	6,891
Pensioners and dependants	5,161	5,269	5,438	5,711	5,934
	£M	**£M**	**£M**	**£M**	**£M**
Employee contributions	7.4	8.5	8.8	8.3	7.8
Employer contributions	28.4	28.1	29.8	31.2	33.8
Total contributions	**35.8**	**36.6**	**38.6**	**39.5**	**41.6**

Table C: The total administrative cost of the fund

Expenditure	**2010/11**		**2011/12**	
	£'000	**per cent**	**£'000**	**per cent**
Administration and processing	1,099	40.3	944	26.1
Actuarial fees	115	4.2	69	1.9
Administration, management and custody fees	1,496	54.8	2,579	71.4
Performance measurement fees	19	0.7	20	0.6
Total Administration Costs	**2,729**	**100.0**	**3,612**	**100**

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

YEARS	**2008 £'000**	**2009 £'000**	**2010 £'000**	**2011 £'000**	**2012 £'000**
VALUE	**472,040**	**339,573**	**454,815**	**490,359**	**493,897**

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 10.1% of the Fund to 12.5%) and infrastructure (from 1.7% to 3.4%) have increased in line with investment plans. The asset allocation has also been amended to reflect the termination of the Global Tactical Asset Allocation mandate and the reduction in exposure to fixed interest assets. 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 holding a diversified portfolio across a number of currencies.

e) Credit risks. The Fund only appoints properly regulated managers, and only deals on authorised markets. Pooled funds have 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 admitted body contributions - £180,000.

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 contributions and dividends, and the return of capital from private equity investments. Derivative payments from Henderson Global Investors (£2m) are covered by cash reserves.

Currency All liabilities are payable in sterling, but some assets are held in overseas currencies – in particular private equity, overseas equities, some bonds, European property and infrastructure. Although the fixed interest has currency hedges in place, the other managers do not hedge on the grounds that a) currencies do not tend to change much in value over the long term and b) sterling has tended to decline in value, thus making overseas assets more attractive.

Market Market risks, either positive or negative, are the largest risks faced by the Fund, and arise from fluctuations in market conditions and sentiment. It is suggested that equity exposure is most volatile – corrections of 10% over a short period are quite regular. Private equity and infrastructure also have equity elements, but are also affected by profits and, in the case of infrastructure, tariff contracts. If it is assumed that the potential variation may be two standard deviations, the changes (as illustrated in the CIPFA publication on Local Government Pension Scheme accounts – Example Accounts and Disclosure Checklist) may be:-

Equities	25.8% of exposure	+/- £m
Property	16%	+/- £m
Private equity	27.6%	+/- £m
Infrastructure	21.8%	+/- £m
Hedge funds	12% (worst year)	+/- £m
GTAA	25.8% (as equities)	+/- £m

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.
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, as may changes to the LGPS that increase employee contributions to the Fund.

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 £196.1 million (£279.1 million 2010/11) and the purchases totalled £213.6 million (£296.1 million 2010/11) during 2011/12.

Administration
Pension administration is carried out by Capita Hartshead which currently has the equivalent of 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 2011 £'000	per cent	31 March 2012 £'000	per cent
UK equities	72,751	14.9	86,491	17.6
UK equities small companies	15,884	3.3	15,980	3.3
Private equity	52,073	10.7	65,557	13.4
Overseas equities – developed markets	122,121	25.1	117,764	24.0
Overseas equities – emerging markets	36,304	7.4	31,043	6.3
Fixed interest securities				
Gilts	17,144	3.5		
Corporate bonds	23,957	4.9		
Credit	21,717	4.5		
Other	22,147	4.5	89,827	18.3
Property UK fund of funds	26,427	5.4	28,445	5.8
Property European fund of funds	6,666	1.4	6,294	1.3
Hedge funds	42,286	8.7	40,494	8.3
Global Tactical Asset Allocation	18,827	3.9	-	
Infrastructure	8,110	1.7	15,465	3.2
UK cash deposits	540	0.1	-7,195	-1.5
Total assets	**486,954**	**100**	**490,166**	**100**

Table F: The Fund's largest UK equity holdings	31 March 2012	
Company	**Market Value £'000**	**per cent of UK equities**
Royal Dutch Shell	7,682	8.9
HSBC	5,121	5.9
Vodafone	4,798	5.6
BP Amoco	4,687	5.4
GlaxoSmithKline	3,916	4.5
British American Tobacco	3,351	3.9
Rio Tinto	3,095	3.6
BG Group	2,625	3.0
AstraZeneca	2,463	2.8
BHP Billiton	2,231	2.6

Table G: Asset class	Asset allocation		
	Brent Target	Brent Target	Ave. Local Authority
	31 March 2011	31 March 2012	31 March 2012
	per cent	per cent	per cent
Fixed interest	18.0	15.0	17.2
UK FTSE 350 equities	12.5	18.0	28.8
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities – developed	22.5	21.0	35.3
Overseas equities - emerging	8.0	8.0	(incl. above)
Property	8.0	8.0	7.0
Hedge fund of funds	10.0	10.0	1.8
Private equity	10.0	10.0	3.9
Infrastructure	2.0	5.0	
Global tactical asset allocation	4.0	-	
Cash	1.0	1.0	3.8

The main changes since 31st March 2011 were to terminate the Global Tactical Asset Allocation mandate, reduce exposure to government gilts, increase investment in UK equities to prepare for the new diversified growth fund, and increase exposure to infrastructure as part of the agreed programme.

Markets were mixed in 2011/12. The WM Local Authority universe indicates that the best performing asset class was fixed interest – government bonds had a stellar year as investors sought a safe haven from eurozone problems. Other assets that performed well were private equity and UK property. Asset allocation has added value because the Fund has a larger than average exposure to alternative assets (hedge funds, infrastructure and private equity) when compared to the average fund. However, asset allocations to European property and credit have reduced performance. The investments in private equity and infrastructure remain ‘immature’, but will add value in later years. Stock selection has been poor in UK equities, hedge funds and emerging market equities.

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 2011/12	
	per cent
Total Return	-0.2
Average Local Authority Return	2.6
Fund Benchmark Return	2.8
Inflation (Retail Price Index)	3.6
Average Earnings	0.1

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

- The UK small companies' manager underperformed in a sharply rising market when investment fundamentals were not fully recognised.
- Private equity underperformed an absolute return benchmark following the falls in public equity markets and the decline in the value of the euro.
- The emerging market equity manager underperformed as the market downgraded value and smaller company stocks.
- The hedge fund manager underperformed as a result of various key managers having poor stock selection and other managers being too cautious.

Table I: Investment returns in individual markets

Asset Class	Returns		Asset Allocation as at 31 March 2012	
	Brent Fund per cent	Benchmark per cent	Brent Fund Actual per cent	Average Authority per cent
UK equities-FTSE350	1.0	1.4	17.8	28.8
UK equities-small	-1.8	-0.1	3.3	Incl. above
Overseas equities	-4.1	0.3	30.7	35.3
Fixed interest	7.4	7.8	15.6	17.2
Property	2.8	7.0	7.2	7.0
Hedge funds	-3.7	4.8	8.3	1.8
Private equity	2.4	10.0	12.5	3.9
Infrastructure	3.1	10.0	3.4	2.2
Cash	0.4	0.4	1.2	3.8
Total	**-0.2**	**2.8**	**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	1.0	1.4	19.4	18.7	2.3	2.0
UK Small companies	-1.8	-0.1	24.2	24.8	-1.5	-5.3
Overseas equities	1.0	0.9	14.1	15.7	-5.7	-0.6
Fixed interest	7.4	7.8	11.9	6.4	5.2	5.9
Property	2.8	7.0	1.9	10.1	-3.9	-2.4
Hedge Funds	-3.7	4.8	3.3	4.7	2.3	6.5
Private equity	2.4	10.0	-4.6	1.9	6.1	3.0

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
2011/12	-0.2	2.6	0.1
2010/11	6.7	8.2	2.2
2009/10	28.9	35.2	2.2
3 years to 31.3.12	11.2	12.6	2.9
5 years to 31.3.12	-1.1	1.5	2.5
10 years to 31.3.12	2.7	4.2	n/a

Current information

Statement of Investment Principles

In response to new regulations, the Pension Fund Sub Committee initially 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 (June 2012) has updated the Statement to include new managers and the revised asset allocation. 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 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. It should be noted that some employees retain investments with Equitable Life, the previous manager.

Conflicts of interest

Conflicts of interest are managed as follows:-

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

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

c) Councillors are not members of the Brent Fund.

d) 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

Learning and Development

There has been an increasing emphasis on learning and development following the CIPFA Report and Code of Practice giving the Director of Finance responsibilities to ensure that both officers and members are properly equipped to carry out their roles.

Officers will continue to receive on the job and development training through seminars, conferences and web-based learning.

Councillors have agreed:-

- The adoption of the key principles, statement and policy statement underpinning the Code of Practice.
- The requirement to undertake regular learning and development on pensions finance knowledge and skills.
- The target of 21 hours per annum for learning and development. This can be through preparation for, and attendance at, sub committee meetings; training events, or web-based training; Seminars or conferences; briefings; reading. Members have access to a web-based package prepared by the previous actuary, AonHewitt. Training events are held before each sub committee meeting, and occasionally as specific events. Individual items of business will also have a training content. Each member should undergo induction training, and be provided with a pack that includes the various Strategies used by the Sub Committee as well as background information. Finally, courses and seminars will be publicised for attendance by members if they are available.

New developments

The Fund is planning to appoint a Diversified Growth Fund manager (portfolio funded in June 2012).

There are plans for the LGPS to change from 1st April 2014. It is uncertain at present what the impact of the changes will be.

Capita Hartshead (fund administrator) report – appointed September 2011

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 2011 to 31 March 2012 (2010/11 in brackets)

	Completed in period	Performance	Expected time scales	London Median
Admissions	187	100.00 (92.36)	10 days	10 days
Transfers in	10	100.00 (99.78)	10 days	10 days
Transfers out	37	94.59 (99.78)	5 days	15 days
Estimates (employers and employees)	402	95.27 (99.27)	3 days Employers 5 days Employees	10 days
Retirements	141	92.91 (99.52)	3 days	5 days
Deferred benefits	241	98.34 (98.82)	15 days	15 days
Refunds	5	100.00 (98.82)	10 days	10 days
Deaths	123	95.75 (99.5)	3 days	5 days
Correspondence	1318	99.62 (95.56)	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 2011 (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 2011/12

Contribution rates (%)	5.25	5.5	5.8	5.9	6.0	6.5	6.8	7.2	7.5	Total
Total members	0	221	1,184	935	0	1,520	901	396	41	5,198

Table N: Number of members as at 31 March 2012

Age Band	Actives	Deferreds	Pensioners	Dependants
1-5	0	0	0	7
6-10	0	0	0	15
11-15	0	0	0	14
16-20	25	14	0	40
21-25	172	139	0	17
26-30	377	488	0	3
31-35	488	638	1	4
36-40	634	679	0	5
41-45	842	1073	8	9
46-50	1022	1440	31	12
51-55	812	1336	96	31
56-60	585	861	353	45
61-65	267	191	972	57
66-70	53	17	1073	95
71-75	6	9	946	119
76-80	0	2	730	123
81-85	0	2	463	158
86-90	0	0	238	88
91-95	0	0	72	54
96-100	0	0	29	20
101-105	0	0	2	6
106-110	0	0	1	4
Total	**5,284**	**6,889**	**5,015**	**926**

London Borough of Brent Pension Fund accounts as at 31 March 2012

	Note	2010/2011 £ 000s	2011/2012 £ 000s
Contributions and benefits			
Contributions receivable	3	39,594	41,663
Transfer values in	4	4,306	2,152
		43,900	**43,815**
Benefits payable	5	32,948	34,292
Payments to and account leavers	6	5,117	3,132
Administrative expenses	7	1,214	1,013
		39,279	**38,437**
Net additions (withdrawals) from dealings with members		**4,621**	**5,378**
Returns on investment			
Investment income	8	12,007	8,236
Change in market value of investments	9	20,431	(7,477)
Investment management expenses	10	(1,515)	(2,599)
Return on investments		**30,923**	**(1,840)**
Net increase / (decrease) in the funds during the year		**35,544**	**3,538**
IFRS net assets of the scheme			
Opening net assets		**454,815**	**490,359**
Closing net assets		**490,359**	**493,897**

Net assets statement 31 March

	Note	2010/2011 £ 000s	2011/2012 £ 000s
Investment assets	**9**	**487,443**	**490,416**
Investment liabilities		**0**	**0**
TOTAL Investments		**487,443**	**490,416**
Current assets	**11**	**2,122**	**3,363**
Non current Assets	**16**	**1,758**	**1,921**
Current liabilities	**12**	**(964)**	**(1,803)**
Net assets of the scheme at 31 March		**490,359**	**493,897**

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.

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 as part of the annual accounts, 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

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 accounts are prepared on an accruals basis. The debtors include income due and the pensions strain over the next 2 years. 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 2012 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 2011/2012.

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 2011/2012 employers' contributions of £33.9 million were paid (2010/11 £ 31.2 million).
The increased contributions will support the 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 2012 and will publish 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).

- Key management personnel are the same for the pension fund as for the Council as a whole;
- The 2011/2012 remuneration for Council key management personnel are presented in full in the Council accounts (this is Note 36);
- It is not possible to apportion this remuneration precisely between the Council and the pension fund accounts, as the exact amount of time spent by these individuals on the pension fund is not exactly defined or measured. Hence, their remuneration is shown in full in the Council accounts, and not at all in the pension fund accounts.

L Liquidity of Investments
Private equity and Infrastructure investments are illiquid because the funds are established for twelve years, which may be extended. The commitments are agreed at the commencement of the Fund and cannot be changed without agreement with the General Partner.

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

N Responsibilities of the Director of Finance and Corporate Services
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 2012. 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 £7.7 million in 2011/2012. The numbers of contributing members increased during the year.

	2010/11 £000s ongoing	2010/11 £000s deficit	2011/12 £000s ongoing	2011/12 £000s deficit	2010/11 £000s	2011/12 £000s
Employers						
Brent	17,383	9,514	16,274	14,208	26,897	30,482
Scheduled	2,176	465	1,824	817	2,641	2,641
Admitted	1,091	633	389	371	1,724	760
Members						
Brent					6,892	6,593
Scheduled					904	869
Admitted					316	176
Additional contributions					220	142
	20,650	**10,612**	**18,487**	**15,396**	**39,594**	**41,663**

	2010/11 £000s	2011/12 £000s
4 Transfers in		
Individual Transfers in from other schemes	**4,306**	**2,152**
5 Benefits payable		
On retirement or death		
Pensions		
Brent	21,721	23,631
Scheduled	906	1,066
Admitted	795	945
Lump sum retirement benefits		
Brent	7,762	6,484
Scheduled	972	599
Admitted	296	722
Lum sum death benefits		
Brent	496	683
Scheduled	0	90
Admitted	0	72
	32,948	**34,292**
6 Payments to and on account of leavers		
Refund to members leaving service	(6)	(3)
Individual transfers to other schemes	5,123	3,135
	5,117	**3,132**
7 Administration expenses		
Administration and processing	1,064	914
Actuarial fees	115	66
Audit fees	35	33
	1,214	**1,013**

8 Investment Income

Dividend income equities	4,837	3,043
Income from fixed interest securities	2,371	2,310
Income from property unit trusts securities	1,285	1,714
Income from private equity	2,408	769
Interest on cash deposits	42	65
Infrastructure	289	175
Commission recapture	17	0
Miscellaneous	758	160
Total investment income	**12,007**	**8,236**

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	17,144	-
Equities	72,751	86,491
Pooled investment vehicles	396,519	410,576
Cash	540	(7,195)
	486,954	**489,872**

Investments 2011 (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

Investments 2012 (detail)

	Value at 31.03.11 £'000s	Purchases At cost £'000s	Sales Proceeds £'000s	Change in Market Value £'000s	Value at 31.03.12 £'000s
UK equities-quoted	72,751	22,158	6,810	(1,608)	86,491
Global Equities-LGIM	122,121	0	3,115	(1,242)	117,764
Emerging markets-LGIM	36,304	0	35,907	(397)	0
Emerging markets-Dimentional	0	35,827	0	(4,784)	31,043
Fixed interest (including unit trusts)	84,965	128,760	126,961	3,063	89,827
Property UK FOF UT	26,427	1,200	0	818	28,445
Property European FOF UT	6,666	0	18	(354)	6,294
UK equities small companies UT	15,884	476	0	(380)	15,980
*Private equity-YFM/CapDyn LLP	52,073	17,283	4,969	1,170	65,263
Hedge fund Open ended Trust	42,286	0	0	(1,792)	40,494
*Infrastructure LLP	8,110	7,892	193	(343)	15,466
GTAA Open ended Trust	18,827	0	18,158	(669)	0
	486,414	**213,596**	**196,131**	**(6,518)**	**497,067**
Cash deposits	540		7,203	(532)	(7,195)
Henderson Bond Future	0	213	80	(133)	0
Henderson FX	0	258	258	0	0
	486,954	**214,067**	**203,672**	**(7,183)**	**489,872**
Investment income due	489				544
	487,443				**490,416**

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 2012, outstanding commitments totalled £89m.

Fixed interest securities	2010/11 £000s	2011/12 £000s
Segregated		
UK public sector	17,144	-
Pooled		
UK corporate – open ended unit trust	23,957	-
Overseas government open ended unit trust	8,257	-
Secured loans open ended unit trust	4,613	-
Credit opportunities open ended unit trust	9,201	9,805
Credit alpha open ended unit trust	12,516	-
Currency fund open ended unit trust	646	-
Absolute return fund open ended unit trust	0	66,093
Infrastructure Limited Partnership	920	1,141
Money market fund	7,711	12,788
	84,965	**89,827**

Pooled investment vehicles (excluding fixed interest).

	2010/11 £000s	2011/12 £000s
Property - UK fund of funds unit trust	26,427	28,445
Property - European fund of funds unit trust	6,666	6,294
UK Equities – small companies unit trust	15,884	15,980
Overseas equities – developed markets	122,121	117,764
Overseas equities - emerging markets	36,304	31,043
Private equity limited partnerships	52,073	65,263
Hedge fund open ended trust	42,286	40,494
Infrastructure limited partnership	8,110	15,466
GTAA open ended trust	18,827	-
	328,698	**320,749**

Type of derivative	Expiration	Economic exposure value £000	Fair Value Asset	Fair Value Liability
Henderson				
Euros	26 June 2012	(35)		
Euros	26 June 2012	35		

Derivative receipts and payments represent the realised gains and losses on contracts. The various derivatives are / were 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 was obtained through futures, and had 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 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) sought to make gains through the relative movements in currency, bonds and equities. Exposure was 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:-

	2010/11 £000s	2011/12 £000s
Equitable Life	180	175
Clerical Medical	1,212	1,138
	1,392	**1,313**

10 INVESTMENT MANAGEMENT EXPENSES

	2010/11 £000s	2011/12 £000s
Administration, management and custody fees	1,429	2,510
Performance measurement fees	19	20
Other advisory fees	67	69
	1,515	**2,599**

INVESTMENT MANAGEMENT FEES INCLUDE FEES CHARGED DIRECTLY TO THE FUND, BUT NOT FEES CHARGED WITHIN POOLED FUNDS.

11. CURRENT ASSETS

Contributions due		
Employers	2,507	2,102
Employees	98	101
Additional voluntary contributions	1	2
Other miscellaneous debtors	1,274	1,157
	3,880	**3,363**

12. CURRENT LIABILITIES

Management / advisor's fees	(48)	(1,642)
Lump sums not paid	0	0
Accrued expenses	(916)	(161)
	(964)	**(1,803)**

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	3,880	5,284
	3,880	**5,284**

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	(964)	(1,803)
	(964)	**(1,803)**

15. Cash and cash equivalents

Cash held by authority	0	0
Bank current accounts	540	(7,195)
Short-term deposits with building societies	0	0
	540	**(7,195)**

16. Non current assets

This comprises of contributions due from employers, repayable later than a year of the Balance sheet date.

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 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.	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 on the Pension Fund financial statements published with the Pension Fund Annual Report

OPINION ON THE PENSION FUND ACCOUNTING STATEMENTS

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES AND AUDITOR

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

OPINION ON FINANCIAL STATEMENTS

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

OPINION ON OTHER MATTERS

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

MATTERS ON WHICH I REPORT BY EXCEPTION

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andrea White
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

(This opinion will be signed at the Council's Audit Committee on 27 September 2012)

Report and accounts prepared and compiled by
Bina Chauhan-Wild. Principal Investment Officer
Anthony Dodridge. Head of Exchequer and Investment