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Brent Pension Fund Sub-Committee

Tuesday, 28 September 2010 at 6.30 pm
Committee Room 4, Brent Town Hall, Forty Lane, Wembley, HA9 9HD

Membership:

Members Councillors:	**first alternates** Councillors:	**second alternates** Councillors:
S Choudhary (Chair)	Denselow	Gladbaum
Mrs Bacchus	A Choudry	Daly
Crane	Harrison	Hector
Mitchell Murray	Hirani	Hossain
Brown	CJ Patel	
Hashmi	CJ Patel	
BM Patel	HB Patel	Baker

Non Voting Co-opted Members

George Fraser	GMBU
Ashok Patel	College of North West London

For further information contact: Toby Howes, Senior Democratic Services Officer 020 8937 1307, toby.howes@brent.gov.uk

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

8 Investment in Private Equity 57 - 60

The report proposes a revised private equity programme with Capital Dynamics.

9 Date of Next Meeting

The next meeting of the Brent Pension Fund Sub-Committee is scheduled for **Tuesday**, **30 November 2010** at **6.30 pm**.

10 Any Other Urgent Business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

Please remember to ***SWITCH OFF*** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.
- Toilets are available on the second floor.
- Catering facilities can be found on the first floor near The Paul Daisley Hall.
- A public telephone is located in the foyer on the ground floor, opposite the Porters’ Lodge

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 29 June 2010 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Mrs Bacchus, Crane, Brown, Hashmi and BM Patel

Apologies were received from: Councillor Mitchell Murray and also from George Fraser (GMBU)

1. **Declarations of personal and prejudicial interests**

None

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 23 February 2010 be approved as an accurate record of the meeting.

3. **Report from Henderson Global Investors**

Jennifer Ockwell and Kevin Adams (Henderson Global Investors) were in attendance for this item and members had received a copy of the Investment Report for the quarter ended 31 March 2010. Ms Ockwell began the session by giving a short introduction to bonds, for the benefit of new members to the committee followed by background information on the company and its portfolio strategy which had performed above the benchmark.

Members raised questions on the fee structure, the prospects of interest rates rises, the Japanese market and the impact of a double dip recession should this occur in future. Ms Ockwell advised that guidance booklets on fund management were available for members.

Members thanked Ms Ockwell and Mr Adams for their presentation.

4. **Monitoring Activity for the quarter ended 31 March 2010**

The Sub-Committee received a report from the Director of Finance and Corporate Resources which summarised fund activity during the quarter ended 31 March 2010. The Head of Exchequer and Investment, Martin Spriggs, advised that the fund had grown in value and had outperformed its benchmark over the quarter (by 1.1%) mainly as a result of outperformance in UK equities, fixed interest, GTAA and private equity. The equity and credit markets had risen, economic growth was improving and the recession considered to have ended although a ‘double dip’ may still occur. Martin Spriggs outlined the main changes made to asset allocation and was pleased to report that the returns for the last three months of the year had been positive. Over one year, the fund had underperformed the benchmark. Martin Spriggs referred to the current valuation of assets within the Capital Fund for London which anticipated losses which would impact on the Brent Fund but which would be recovered over the long term. Finally Martin Spriggs reported on recent communication over the Henderson's PFI Secondary II Fund.

Members raised questions on options relating to the relative under performance of the fund and agreed that the situation should be closely monitored. Martin Spriggs advised that it was not unusual for private equity investments to make losses in the early stages but these should be recovered over the longer period.

Valentine Furniss (Independent Adviser) gave an overview of the economic and market background. He suggested that if committee meetings scheduled approximately six weeks after the quarter end would allow information presented to be more relevant. He commented that the good equity returns masked poor performance in January. Index returns were also low. The situation in the Euro zone was cause for concern due to the fiscal deficit and disagreements between member states. Mr Furniss commented on the outcome of the recent general election and the coalition government's announcement of a fixed four year term of office which would encourage stability. The government's emergency budget would have widespread effects and he felt it would take a long time to halve the deficit. The committee discussed the current problems being experienced by BP in dealing with the oil spill in the Gulf of Mexico and the extent to which investors could be apprehensive. Members noted the effect on the income stream and BP's decision not to pay dividends to share holders. Martin Spriggs advised of the extent of the Brent Pension Fund investment in BP and that options were being considered.

RESOLVED:

that the report from the Director of Finance and Corporate Resources be noted.

5. **Pension Fund accounts 2009/10**

The Head of Exchequer and Investment introduced the report on the Pension Fund accounts for 2009/10. He pointed out that audit fees had decreased by 10%, and that the value of benefits payable (both pensions and lump sums) had risen.

RESOLVED:

that the report be noted.

6. **Business training plans for 2010/11 and business plans to 2011/13**

The committee considered the report which outlined the planned activities of the Pension Fund Sub Committee for the year to February 2011, and the three years to February 2013. Members agreed to contact the Head of Exchequer and Investment regarding attendance at the LGC Pension investment conference in September.

RESOLVED:

that the report be noted.

7. **CIPFA Pensions Panel - Knowledge and Skills Framework**

The report from the Director of Finance and Corporate Resources introduced the CIPFA Knowledge and Skills Framework which was designed to promote good governance in public sector decision making bodies. Members agreed with the proposal that a questionnaire be drafted to clarify items on which they may require additional skills or training.

RESOLVED:

that the report be noted and agreement given to the preparation of a questionnaire to establish skill shortages or training requirements.

8. **Urgent action on currency - amendment to Statement of Investment Principles**

The committee considered the report from the Director of Finance and Corporate Resources which detailed the recent urgent reaction to concerns about the value of sterling, and examined how the Fund should react to warnings of a sharp fall in markets. The report also proposed an amendment to the Statement of Investment Principles. Members agreed the proposals noting that in the event of future market concerns the Director of Finance and Corporate Resources would consult the chair, the independent adviser and investment managers.

RESOLVED:

(i) that the action taken by the Director of Finance and Corporate Resources in response to concerns earlier in the year over the value of sterling be noted and the new process in the Statement of Investment Principles be agreed;

(ii) that any urgent action taken in future be reported to the next meeting of this committee.

9. **Date of Next Meeting**

It was noted that the next meeting was scheduled to take place on 28 September 2010.

The meeting closed at 8.40 pm

S. CHOUDHARY
Chair

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BRENT COUNCIL	**Pension Fund Sub Committee** 28th September 2010 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL
Report Title:	**PENSION FUND ACCOUNTS 2009/10**

1. SUMMARY

1.1 This report introduces the final Pension Fund accounts for 2009/10.

2. RECOMMENDATIONS

2.1 Members are asked to note the accounts.

3 DETAIL

3.1 The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. Members will be aware that the Brent Pension Fund has produced a separate Annual Report and Accounts for many years.

3.2 The final 2009/10 Report and Accounts are attached as Appendix 1. The main change to the accounts from the draft presented in June is to amend the market values for the Gartmore UK and Irish Small Companies Fund, the Aviva UK Property Fund of Funds and the Aviva European Fund of Funds to agree with the valuations recorded by the custodians, as set out in Appendix 2 of the Annual Governance Report (Appendix 2 to this report).

3.5 The Audit Commission's Annual Governance Report on the Brent Pension Fund is attached as Appendix 2. Paul Viljoen will attend to present the Report.

4. FINANCIAL IMPLICATIONS

These are set out within the report.

5 DIVERSITY IMPLICATIONS

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

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the plans.

8 BACKGROUND

Pension Fund Sub Committee – Report and accounts for 2009/10 – June 29th 2010

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

DUNCAN McLEOD
Director of Finance and Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

BRENT PENSION FUND REPORT 2010 (draft)

I N D E X

Message from the Chair

Brent Pension Fund Sub Committee

2008/09 was a dreadful year. The belief that central bank support and the raising of new capital would restore the banking sector to health was rudely shattered by the collapse of numerous banks and financial institutions either into bankruptcy or nationalisation – Lehman Brothers, Freddie Mac, Fannie Mae, AIG, Royal Bank of Scotland, HBOS and many others. Central banks fought to support the financial sector and to restore credit facilities to businesses and individuals. Interest rates were cut sharply – in the UK from 5.5 per cent to 0.5 per cent and in the US to 0.25 per cent. Central banks and treasury departments in the UK and US launched vast experiments with QE – quantitative easing – seeking to increase the money supply so that banks and others were able to lend and invest in more risky assets. Stock markets fell sharply – in the UK by 30 per cent - as profits fell and some famous high street names like Woolworths, vanished. With the exception of government bonds, all investment markets fell.

2009/10 has been a very different year. Equity markets rose by around 40% as the cash provided by quantitative easing supported assets values. Commercial property prices began to recover, after falling by more than 40% - the market rose by 9% in the quarter to 31st December. House prices began to rise. Corporate bonds and other credit securities recovered sharply as the market was convinced that companies would survive. Most important, the value of the Fund has risen from £340m to £m.

The Fund returned %, against the benchmark of % and the average local authority %. The highlights of this performance were:-

- The UK equity in house team outperformed the market by careful index tracking activity and reinvesting dividends in successful companies.
- The global tactical asset allocation manager outperformed substantially as their currency, bond and market decisions were successful, as well as their overweighting equities against bonds.
- The fixed interest manager outperformed in both the core (government and corporate bonds) and satellite (secured loans, emerging market debt, corporate bonds and hedge fund opportunities) portfolios. The satellite portfolio gave particularly strong returns, mainly because values rose following the falling markets experienced in 2008/09.
- The hedge fund of funds manager also outperformed as a number of strategies were successful – in particular, macro and equity related.

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

- Private equity lost money as long term investments were valued in line with ('marked to market') public equity markets that had fallen sharply. The decline in the availability of credit also reduced opportunities for managers who were unable to sell companies. Private equity activity was subdued for much of 2009, but prices have fallen enabling managers to start finding deals. The new secondaries fund is finding opportunities as cash strapped funds seek to raise cash.
- The diversified asset allocation followed by the Brent Fund was unsuccessful in a market where equities rose very sharply in value. When compared with the average local authority, the Brent Fund is underweight in equities and overweight in private equity, property and hedge funds – the latter did not add value in 2009/10.

As the asset allocation for the Fund is largely agreed on a three year basis, there were few changes in 2009/10 – the Sub Committee took the view that the investments previously agreed should be given time to add value. However, two moves were made:-

- To commit to invest 5 per cent of the Fund in infrastructure through the Alinda Infrastructure Fund. Research has indicated that infrastructure assets – roads, bridges, hospitals etc – can yield steady inflation linked returns over a long period. The manager invests largely in developed markets. At present, around 1.3% of the Fund is invested, but this will rise to 5% over the next three years.
- Following sharp falls in equity markets, the termination of the currency mandate at the end of 2008, and a period of underperformance, it was found that exposure to global equities was seriously below the benchmark. It has therefore been agreed to increase exposure to global equities by reducing exposure to UK equities and fixed interest.

And the future? Equity and credit markets enjoyed a stellar 2009/10. It is not anticipated that such rates of growth will continue. However, the recovering global economy should support company earnings, and dividends, boosting equity returns. Secured loans should continue their recovery as confidence returns. The decline in commercial property prices appears to have bottomed out, though it is anticipated that rents will continue to fall. However, there are still concerns about slow growth and lack of credit in the UK, as well as the size of fiscal deficits. The problems faced by Greece could easily spread to Portugal and Spain. Rising commodity prices could herald rising inflation, leading to rising interest rates and an economic slowdown.

The Sub Committee has been very active during the year, examining such issues as manager performance, performance fees for fund managers, changes to the benchmarks followed by managers, and the revised Myners' principles for investment management. In 2010/11, the main issue is likely to be the triennial Actuarial Valuation, when the actuary (Hewitt) values the assets and liabilities of the Fund to determine the correct level of employer contributions. At present, both the LPFA and the in-house Pension Team are working hard to improve the standard of records and resolve queries. It is expected that the Valuation will reveal a large deficit following a period (2007 – 2009) of poor performance and low interest rates, but the deficit can be recovered over a long period before the liabilities become due for payment.

Councillor George Crane
Chair, Brent Pension Fund Sub- Committee

Brent Pension Fund responsibilities

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

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

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

Chair	Councillor Crane
Vice-Chair	Councillor H. Patel
Member	Councillor Bacchus
Member	Councillor Hashmi
Member	Councillor D. Brown
Member	Councillor C Patel
Member	Councillor Detre
Co-opted members	
North West London College	Mr. A. Patel
GMBU	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund responsibilities – Pension Fund Sub Committee

As set out in the scheme of governance, only councillors have voting rights because management of the Fund is part of their legal responsibility. The Sub Committee takes executive decisions.

During 2009/10, members attended sub committee meetings and received training as follows:-

Member	Meetings attended	Training attended
G. Crane	3	1
H. Patel	5	2
J. Bacchus	5	1
S. Hashmi	4	1
D. Brown	-	-
C. Patel	2	1
J. Detre	4	1
A. Patel	2	-
G. Fraser	2	1

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

The following fund managers manage individual portfolios:

Fund Managers	Asset Class	£M	per cent
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	83.2	18.3
AllianceBernstein (Doug Stewart)	Global Equities	128.5	22.7
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	102.7	28.3
Aviva Investors (Catriona Allen)	UK and European Property	26.5	6.0
Gartmore Investment Managers (Martin Prowis)	UK Small Caps	15.5	3.4
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.7	0.6
Capital Dynamics (Angela Willetts)	Private Equity	35.8	7.9
Fauchier Partners (Alex Dolbey)	Hedge Fund	41.7	9.2
Mellon Global Investors (Alaistair Stewart)	Global Tactical Asset Allocation	11.5	2.5
Alinda Capital Partners (Simon Riggall)	Infrastructure	5.0	1.1
		453.1	**100**

Custodians

The Fund uses two custodians for segregated portfolios as follows:

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

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

Actuary (Contact - Christine Rice)

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

Performance measurement (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 Resources	Duncan McLeod	
Head of Exchequer & Investment	Martin Spriggs	020 8937 1472
Principal Investment Officer	Bina Chauhan-Wild	020 8937 1473

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

Pensions Manager	Andrew Gray	020 8937 3157

Pensions contractors

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

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

AVC Provider

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

Legal Adviser
The London Borough of Brent Solicitor is Fiona Ledden

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

Auditor
The Fund is audited by the Audit Commission.

London Borough of Brent

STATEMENT OF ACTUARY FOR THE YEAR ENDED 31 MARCH 2010

Introduction

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

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.

2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £499.0M) covering 72% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.

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

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

Plus

- 7.7% of pensionable pay 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 2008.

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

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

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

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 for periods

Scheduled Bodes

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

Admitted Bodes

In service Discount rate:	6.20%	a	year
Left service Discount rate:	5.20%	a	year

Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

8. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.

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

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

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

Hewitt Associates Limited

Table A: Employer Contribution Rates

	2008/09 per cent	2009/10 per cent	2010/11 per cent	2011/12 per cent
nt	22.9	22.9	22.9	22.9

LIST OF scheduled bodies & ADMITTED BODIES

Scheduled bodies	Employee contributions £ 000s	Employer contributions £ 000s
London Borough of Brent	6,621	22,858
Alperton Community School	65	236
ARK Academy	8	19
Avigdor Hirsch Torah Temimah School	2	6
Cardinal Hinsley High School	41	148
Claremont High School	31	112
College of North West London	413	1,157
Brent Housing Partnership	359	750
Convent of Jesus & Mary RC Language College	39	137
Capital City Academy	71	243
The Copland Community School & Technology Centre	78	285
Furness Primary School	14	54
JFS	47	163
Crest Boys	27	96
Crest Girls	34	122
Kilburn Park School	5	22
Kingsbury High School	110	399
Islamia Primary School	14	10
Malorees Junior School	8	30
Manor Day School	44	169
Michael Sorbell Sinai School	17	62
North West London Jewish Day School	12	43
Oakington Manor Primary School	21	79
Preston Park Primary School	27	105
Preston Manor High School	61	219
Queens Park Community School	48	169
Sudbury Primary School	25	95
St Gregory's RC School	26	95
St Joseph's RC School	27	98
	8,295	**27,981**
Admitted bodies: contributing		
Age Concern	0	7
Brent Association of Disabled People	2	4
Brent Society for Mentally Handicapped Children (Mencap)	8	25
Churchill contracts Ltd	1	2
Goldsborough Homecare and Nursing Services Ltd	62	522
Local Employment Access Project	18	54
National Autistic Society	173	580
Sudbury Neighbourhood Centre	6	21
Jarvis Workspace FM LTD	3	7
Wetton Cleaning Services and North Grounds Maintenance	10	68
Wetton Cleaning Services and South Grounds Maintenance	7	30
	290	**1,320**

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 2010

Economic background

Global equity markets enjoyed a strong rally over the 12-month period (MSCI World Index +47.1%), driven by growing confidence in a sustained economic recovery, the return of merger & acquisition (M&A) activity and better-than-expected company earnings. However, volatility increased during the latter part of 2009 and into 2010 due to concerns over the likelihood of sovereign wealth defaults in Europe (particularly in Greece) and the introduction of lending restrictions in China.

2010 began positively for global equity markets as manufacturing surveys outstripped expectations, activity data continued to improve, and the US economy recorded strong growth in the fourth quarter 2009 (5.7% annualised). As the earnings reporting season gathered pace, the general trend was not only of profits expectations being exceeded, but also of revenues both surpassing expectations and showing signs of growth. However, from mid-January until the end of the period, markets once again endured significant volatility on fears over government debt defaults in Europe, increased banking regulation by the US, and central banks' and governments' "exit strategies" from the various monetary and fiscal stimulus packages. Problems were compounded by China taking what was believed to be early steps to prevent possible inflationary and speculative trends, by raising the percentage of capital that banks are required to maintain at the central bank. Questions over the sustainability of the global economic recovery remained at the forefront of investors' minds due to European sovereign debt concerns, continued fiscal tightening measures in China, and weaker-than-expected consumer data.

At the end of the period, the International Monetary Fund and the European Union announced intervention aimed at resolving the Greek debt crisis and this, coupled with supportive global macroeconomic data, led markets to rebound strongly. Throughout the 12 months, companies across the economy recapitalised and cut costs dramatically. This protected corporate profitability to a higher extent than expected and added fuel to the cyclical rally, ultimately enabling markets to finish with significant gains for the period.

Bond markets

At the beginning of the review period UK government bonds (gilts) were seen as a 'safe haven' against volatility in the equity markets. They benefited from the Bank of England's quantitative easing programme under which it became a massive buyer of government debt; overseas, US treasuries and German bunds were similarly supported by unprecedented fiscal stimulus measures by policy setters in their respective regions. As the period progressed, however, sentiment changed: as global equity markets began to recover after their March 2009 nadir, the availability of stronger returns elsewhere eroded the value of government issues. The anticipated end of quantitative easing programmes promised less support in the future from central banks. In the UK, there were additional problems, notably the scale of the budget deficit and fears that the forthcoming election would produce a hung parliament less capable of implementing measures to reduce the national deficit and protect the UK's prized AAA credit rating. Indeed, sovereign debt problems had become the main theme by the end of the review period; Greek government bond prices suffered from fears over its huge fiscal deficit, as it became increasingly apparent that a detailed debt rescue package would need to be put in place in case the country's austerity measures failed. Demand for riskier assets subsequently reduced and bunds in particular benefitted as investors fled from 'peripheral' European debt. (FTA Government Fixed All Stocks index +0.8%; JP Morgan Global Government Bond index +0.01%).

As market sentiment continued to improve, corporate bonds and equities began to perform broadly in line with each other, narrowing the substantial yield premium that corporates had built up relative to government issues. Corporate bond yields fell and prices rose as investors reigned in expectations regarding the level of expected defaults and corporate bonds posted their strongest quarterly return on record in Q2 2009. Demand was very strong with investors keen to absorb a record amount of new issuance coming to the market and performance was driven by improved liquidity in the markets and a rebound in financials, which had rallied significantly from their low point earlier in the year. Higher-rated credits in more defensive sectors underperformed the market as investors increased their search for yield in lower-rated names; new issuance remained high and was met with strong demand, allowing lower-rated companies to refinance their debt. The IBoxx £ Non Gilts All Maturities index rose 21.0% over the 12 months.

Other markets

Whereas in 2008/09 all markets fell sharply, with the exception of cash and government bonds, in 2009/10 most markets rose. The details are as follows:-

a) Equities rose sharply as low interest rates and plentiful liquidity encouraged investors into riskier assets. The market looked beyond shrinking economies to the prospect of growth and improved company earnings.
b) Property recovered in the final quarter of 2009 after a 45% fall in valuations. Yields had risen substantially (to 8%). However, rental growth still appears to be unlikely in the immediate future, which will limit gains.
c) Private equity suffered from sharp write-downs in valuations, to reflect the both falls in equity markets and lack of demand / finance for buy-outs.
d) Hedge fund managers generated solid returns as equity markets rose, credit markets improved and other strategies added value.

Strategy and outlook

Within the sterling bond market we retain a cautious view on UK gilts. The degree of supply required to fund the budget deficit will, we believe, weigh on gilt prices, especially if there are only limited steps taken towards reducing the deficit post election. However, with interest rates likely to remain relatively low for the remainder of 2010, this will likely provide a prop for the gilt market and prevent a substantial sell-off. Corporate bonds continue to offer value, despite the rally of the past year, with investors looking for yield and the health of companies assisted by the recovery in the economy. In the Brent enhanced portfolio, the prospects for absolute returns from the credit, emerging country debt and currency markets remain strong given market volatility and the attractive opportunities this presented.

PENSION FUND – GENERAL INFORMATION

Fund income

The fund receives income from the following sources:

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

Table B: Fund membership and contributions 2005/06 to 2009/10

	2005/06	2006/07	2007/08	2008/09	2009/10
ıber of contributing employees as at 1 April	5,644	5,849	5,922	6,075	5896
Deferred	4,679	5,159	5,380	5,713	6096
Pensioners and dependants	4,881	5,024	5,161	5,269	5438
	£M	**£M**	**£M**	**£M**	**£M**
›loyee contributions	6.7	7.1	7.4	8.5	8.8
›loyer contributions	21.5	25.6	28.4	28.1	29.8
ıl contributions	**28.2**	**32.7**	**35.8**	**36.6**	**38.6**

Table C: The total administrative cost of the fund

	2008/09		2009/10	
	£'000	per cent	£'000	per cent
Expenditure				
Administration and processing	1,025	46.3	1,094	42.2
Actuarial fees	45	2.0	61	2.4
Administration, management and custody fees	1,125	50.9	1,417	54.7
Performance measurement fees	18	0.8	18	0.7
Total Administration Costs	**2,213**	**100.0**	**2,590**	**100.0**

The cost per fund member was £ in 2009/10 (£ in 2008/09.

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

YEARS	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000
VALUE	**456,747**	**498,500**	**472,040**	**339,573**	**454,815**

RISK MANAGEMENT

Commentary on the management of investment risk is contained within the Statement of Investment Principles. The main investment risks are those of not meeting liabilities and severe market decline. These are mitigated by regular review of performance and asset allocation, diversification between managers and asset classes, and taking advice from consultants, the investment adviser and managers. However, there are other, operational risks that require management. In particular, the systems used by and financial health of, managers, custodians and contractors are assessed at appointment and on an ongoing basis by reference to annual reports, assurance reports (such as AAF 01/06 and SAS 70) and other research. If concerns arise, these are investigated and reported to members so that issues are resolved.
Finally, the status of employer bodies may also give rise to concerns, particularly with regard to admitted bodies whose financial status may be less secure. Where possible, bonds are obtained on admission and renewed as appropriate.

FINANCIAL PERFORMANCE

The Brent Pension Fund does not construct a budget because most of the expenditure and income items cannot be controlled in this way. However, a budget is agreed for certain pensioner payroll, IT and committee support items at the beginning of each year. These budgets are adhered to strictly unless the Fund agrees to extra work items.
A ten year cash flow forecast is updated whenever the asset allocation for the Fund is reviewed (on a three year basis). Following increases in employer contributions, it is anticipated that the Fund will have a positive cash flow (excluding dividend and interest receipts) in future years to reduce the Fund deficit. However, reductions in employee numbers will reduce the current surplus of contributions over benefit expenditure.

INVESTMENTS

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

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

Sales and purchases
Sales proceeds totalled £164.0 million (£167.7 million 2008/09) and the purchases totalled £192.6 million (£162.2 million 2008/09) during 2009/10.

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

Asset Allocation and performance

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

Table E: Asset allocation changes over the year				
	31st March 2009 £'000	per cent	31st March 2010 £'000	per cent
UK equities	80,488	23.7	115,046	25.3
UK equities small companies	9,477	2.8	15,447	3.4
Private equity	25,920	7.6	38,331	8.5
Overseas equities				
USA	30,765	9.0	55,900	12.3
Europe	14,600	4.3	22,100	4.9
Japan	4,100	1.2	7,700	1.7
South East Asia	4,300	1.3	9,900	2.2
Other	5,700	1.7	16,478	3.6
Fixed interest securities				
Gilts	16,000	4.7	14,769	3.3
Corporate bonds	23,885	7.0	22,325	4.9
Credit	4,500	1.3	22,596	5.0
Other	31,100	9.2	22,102	4.9
Property UK fund of funds	18,998	5.6	19,731	4.4
Property European fund of funds	10,133	3.0	6,756	1.5
Hedge funds	36,878	10.9	41,842	9.2
Global tactical asset allocation	5,951	1.8	11,450	2.5
Infrastructure	-		5,011	1.1
UK cash deposits	16,720	4.9	5,676	1.3
Derivatives	(115)	0.0	5	0.0
Forward FX	(34)	0.0	4	0.0
Total assets	**339,366**	**100**	**453,169**	**100**

Table F: The fund's largest UK equity holdings	31st March 2010	
Company	**Market Value £'000**	**per cent of UK equities**
BP Amoco	6,927	7.1
HSBC	6,863	7.0
Royal Dutch Shell	6,841	7.0
Vodafone	4,712	4.8
Glaxosmithkline	3,894	4.0
Rio Tinto	3,566	3.6
British American Tobacco	2,663	2.7
AstraZeneca	2,566	2.6
Barclays	2,467	2.5
BG Group	2,301	2.3

le G: Asset class	Asset allocation

	Brent Target	Brent Target	Ave. local Authority
	1 March 2009	31 March 2010	31 March 2010
	per cent	per cent	per cent
UK gilts	4.5	4.5	10.1
Corporate bonds	4.5	4.5	(incl. above)
Index linked gilts	-		4.4
Overseas bonds	-	2.0	2.0
Secured loans	6.0	2.0	-
Credit opportunities funds	3.0	5.0	-
UK FTSE 350 equities	23.0	18.5	30.0
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities	25.0	26.5	35.9
Property	8.0	8.0	4.5
Hedge fund of funds	5.0	10.0	1.5
Private equity	4.0	8.0	8.4
Currency	7.0	-	1.2
Infrastructure	-	2.0	Above
Global tactical asset allocation	5.0	4.0	Above
Cash	1.0	1.0	4.0

The main changes made at the beginning of the year were to increase exposure to private equity and hedge funds, following the termination of the currency mandate following a period of poor performance. During the year a new Infrastructure mandate commenced.

Markets were strongly positive in 2009/10 with the exception of private equity. The WM Local Authority universe indicates that the best performing asset class was equities. Asset allocation has reduced performance because the Brent Fund has a larger than average exposure to hedge funds and private equity when compared to the average fund. Stock selection has been poor in overseas equities and UK small companies, but has added value in UK equities, fixed interest, hedge funds and GTAA.

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

Table H: Investment Returns 2009/10	
	per cent
Total Return	28.9
Average Local Authority Return	35.1
Fund Benchmark Return	29.8
Inflation (Retail Price Index)	4.5
Average Earnings	2.2

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

- The UK Small Companies manager underperformed as a result of overweighting AIM companies that did not rise in value as rapidly as larger FTSE companies.
- Private equity was marked down to reflect previously falling public equity markets, the lack of credit and declining interest in new public issues..
- The overseas equity manager underperformed as a result of overweighting financial companies and poor currency selection.
- The fixed interest manager outperformed as confidence returned to bond markets and yields fell sharply.
- The global tactical asset allocation manager outperformed as all four strategies (currency, stock / bond, stock / stock and bond / bond) added value.
- The hedge fund of funds manager outperformed as a number of strategies (equity, macro, event driven) were successful.

Table I: Investment returns in individual markets

	Returns		Asset Allocation as at 31.March 2010	
Asset Class	Brent Fund per cent	Benchmark per cent	Brent Fund Actual per cent	Average Authority per cent
UK equities-FTSE	54.3	52.0	25.8	30.4

UK equities-small	62.3	68.7	3.4	Incl. above
Overseas equities	47.2	48.7	24.5	35.9
Fixed interest & index linked	0.8	-0.2	3.3	15.5
Corporate bonds	19.1	20.9	4.9	Incl. Above
Overseas bonds	-	-	1.9	2.3
Other fixed interest	36.1	4.0	7.1	-
Property	-7.3	13.3	6.0	5.8
Hedge funds	13.3	5.1	9.2	1.4
Private equity	11.8	1.2	8.4	3.0
GTAA	92.4	50.4	2.5	1.2
Infrastructure	-	-	1.3	Incl. above
Cash	n/a	2.4	1.7	4.0
Total	**28.9**	**29.8**	**100**	**100**

Table J: Individual Managers performance over one and three years

Asset class	Brent 1 yr	Benchmark	Brent 3 yrs	Benchmark	Brent 5 yrs	Benchmark
	%	%	%	%	%	%
UK equities	54.3	52.0	0.4	0.0	7.7	7.3
Small companies	62.3	68.7	-7.8	-12.8	0.2	-1.2
Global equities	47.2	48.7	-8.6	-2.3		
Fixed interest	22.9	7.0	4.0	5.7	4.4	5.4
Property	-7.3	13.3	-10.4	-9.0	-0.3	1.0
Hedge Funds	13.8	4.7	5.0	7.7		
Global tactical asset allocation	92.4	50.4				

Table K illustrates the long-term performance of the Brent 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
2009/10	28.9	35.2	2.2
2008/09	-26.0	-19.9	2.9
2007/08	7.4	7.0	4.1
3 years to 31.3.10	-3.9	1.7	3.6
5 years to 31.3.10	2.7	7.1	3.7
10 years to 31.3.10	1.9	3.8	n/a

TOPICAL INFORMATION

Statement of Investment Principles

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

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

New developments

The Pension Fund Sub Committee has appointed Alinda Capital Partners to manage a £20m investment in infrastructure..

Membership summary as at 31 March 2007
Introduction

Below is a summary of the membership data used for the actuarial valuation of the London Borough of Brent Pension Fund as at 31 March 2007.

As requested we have shown the number of active, deferred pensioners, pensioners and dependants, split into 5 year age bands.

Table L: Employee contribution banding 2009/10

Contribution rates (%)	5.25	5.5	5.8	5.9	6.0	6.5	6.8	7.2	7.5	Total
Total members	14	474	1,169	934	6	1,735	1,028	489	47	5,896

Table M: Number of members as at 31 March 2007

Age Band	Actives	Deferreds	Pensioners	Dependants
1-5	0	0	0	4
6-10	0	0	0	8
11-15	0	0	0	25
16-20	38	11	0	24
21-25	226	115	0	9
26-30	450	243	0	4
31-35	563	314	1	3
36-40	807	608	5	4
41-45	1,051	1,030	28	10
46-50	983	1,091	44	16
51-55	825	851	88	24
56-60	624	611	253	33
61-65	288	107	839	60
66-70	41	13	1,006	79
71-75	8	4	802	95

76-80	0	1	571	148
81-85	0	0	395	96
86-90	0	0	150	78
91-95	0	0	62	40
96-100	0	0	6	11
101-105	0	0	2	6
106-110	0	0	0	0
Total	**5,904**	**4,999**	**4,252**	**777**

London Pension Fund Authority Report (LPFA)

Introduction

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

On time processing in all categories of work exceeded 96%, with an overall percentage of 97.21%. We were disappointed that a small number of cases were completed late, but at the same time we were also very pleased to see an excellent level of service reflected by nearly half of the cases processed on time actually being completed in advance of their contractual timescales.

Annual Benefit Statements were issued to 4824 deferred beneficiaries and 3908 active beneficiaries. The second run in March produced a further 79 ABS.

Customer satisfaction continues to be very good. We received 10 complaints for the year, all of which were responded to and resolved promptly. Quality of service questionnaires were sent to all retirees and randomly selected members based on cases actioned on their behalf. A review of these responses has shown feedback to be positive, with satisfaction being generally high.

I look forward to another year of working closely together with the run up to the 2010 valuation submission. Public sector pensions are likely to remain a high profile issue over the coming year and good quality information will be crucial in any discussions. The LPFA has continued to take an active role in trying to speak up for the sustainability of the scheme, with the symposium held on the 24th February being a highlight and I will ensure that you are kept informed of any developments that the LPFA feels might be of interest to Brent. Over the last year we have held a joint agency session which I hope to repeat later in this year and a session for the admitted bodies in which the e forms were successfully launched, we have increasing numbers of employers using these forms and these show a much quicker turn around time.

For Brent we have also started to receive and use the monthly interface.

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 N: Service standards over the period 1 April to 31 March 2010 (2008/09 in brackets)

	Completed in period	Performance	Expected time scales	London Median
Admissions	1012	91.47 (98.89)	10 days	10 days
Transfers in	342	99.71 (99.18)	5 days	10 days
Transfers out	273	99.71 (99.18)	10 days	15 days
Estimates (employers and employees)	613	100 (99.62)	5 days	10 days
Retirements	388	99.93 (100)	10 days	5 days
Deferred benefits	735	99.92 (99.87)	10 days	15 days
Refunds	121	99.92 (99.87)	10 days	10 days
Deaths	257	100 (100)	5 days	5 days
Correspondence	2945	99.93 (99.37)	5 days	n/a

Funding strategy statement (FSS - attached)

The FSS was introduced in 2004:-

- to improve local transparency, accountability and understanding of the long-term management of employers' pension liabilities
- to link this process with the Statement of Investment Principles and Fund Valuation requirements. (www.brent.gov.uk/pensions)

Socially responsible investment

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

Governance of the Brent Fund and communication

In 2006, the Sub Committee published its policies and practices on the governance of the Fund, setting out such items as the composition of the Sub Committee and the regularity of meetings. (www.brent.gov.uk/pensions)

Added years and additional years voluntary contributions (AVCs)

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

Conflicts of interest

Conflicts of interest are managed as follows:-

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

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

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

Compliance with best investment practice (the Myners' Report)

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

	Note	2008/2009	2009/2010
Contributions and benefits		**£ 000s**	**£ 000s**
Contributions receivable	3	36,629	38,600
Transfer values in	4	1,389	4,389
		38,018	**42,989**
Benefits payable	5	24,227	28,376
Payments to and account leavers	6	3,693	4,869
Administrative expenses	7	1,070	1,155
		28,990	**34,400**
Net additions (withdrawals) from dealings with members		**9,028**	**8,589**
Returns on investment			
Investment income	8	13,623	12,059
Change in market value of investments	9	(153,785)	96,029
Investment management expenses	10	(1,332)	(1,435)
Return on investments		**(141,494)**	**106,653**
Net increase / (decrease) in the funds during the year		**(132,466)**	**115,242**
Net assets of the scheme			
Opening net assets		**472,039**	**339,573**
Closing net assets		**339,573**	**454,815**

Net assets statement 31 March

	Note	2008/2009	2009/2010
Investment assets	**9**	**340,356**	**454,112**
Investment liabilities		**(154)**	**0**
TOTAL Investments		**340,202**	**454,112**
Current assets	**11**	**852**	**971**
Current liabilities	**12**	**(1,481)**	**(268)**
Net assets of the scheme at 31 March		**339,573**	**454,815**

The accounts summarise the transactions and net assets of the pension 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.

London Borough of Brent Pension Fund
Accounting policies and notes to the accounts March 2010

1. Basis of preparation
The financial statements summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future, and have been prepared on a going concern basis. The actuarial position of the fund, which **does** take account of such liabilities, is dealt with in the statement by the actuary on page 8 of the annual report of the Pension Fund and these financial statements should be read in conjunction with it.

2. Accounting policies
The consolidated accounts of the Pension Fund for the year to 31st March 2010 are presented in accordance with the following accounting policies:

A Statements of accounting policies
(i) The pension costs that are charged to the Council's accounts in respect of its employees are equal to the contributions paid to the pension fund for those employees.
(ii) Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. These costs have been determined on the basis of contribution rates that are set to meet 100 per cent of the liabilities of the Pension Fund, in accordance with relevant Government Regulations.

B Basis of accounting
The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of the Pension Schemes: A Statement of Recommended Practice (revised May 2007). Chapter 2 Recommended Accounting Practice 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 valued at the external manager's valuation, or latest accounts.
(iv) Fixed interest securities valued at market value excluding the value of interest accruing on the securities.

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

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

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

G Ex-gratia payments
No ex-gratia payments were met from the Fund in 2009/2010.

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. Irrecoverable Overseas Withholding Tax and UK Income Tax have been written off to the Fund account in 2009/2010.
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 2009/2010 employers' contributions of £29.7 million were paid (2008/09 £28.1 m).
The increased contributions will allow elimination of the funding deficit over a 25 year period.

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

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

L The administrative authority's responsibilities
The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of their officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Resources.
- to manage business to secure economic, efficient and effective use of resources and safeguard assets.

M Responsibilities of the Director of Finance and Corporate Resources
The Director is responsible for the preparation of the Authority's Pension Fund's Statement of Accounts, in terms of the Code and the Statement of Recommended Practice. The Director is required to present fairly the financial position of the Pension Fund (and its income and expenditure) for the year ended 31st March 2010. In preparing this statement of accounts, the Director has: selected suitable accounting policies and applied them consistently; made judgements and estimates that were reasonable and prudent; complied with the Code; kept proper up to date accounting records; and taken reasonable steps for the prevention of fraud and other irregularities.

Duncan McLeod
Director of Finance and Corporate Resources

3 Contributions receivable

Employees contributed £8.8 million in 2009/2010. The numbers of contributing members increased during the year.

	2008/09 £000s ongoing	2008/09 £000s deficit	2009/10 £000s ongoing	2009/10 £000s deficit	2008/09 £000s	2009/10 £000s
Employers						
Brent	16,129	8,828	16,842	9,218	24,957	26,060
Scheduled	1,763	322	1,993	395	2,085	2,388
Admitted	730	330	908	412	1,061	1,320
Members						
Brent					7,178	7,384
Scheduled					810	912
Admitted					313	289
Additional voluntary contributions					225	247
	18,622	**9,480**	**19,743**	**10,025**	**36,629**	**38,600**

4 Transfers in

Individual Transfers in from other schemes	**1,389**	**4,389**

5 Benefits payable

On retirement or death		
Pensions		
Brent	19,129	20,781
Scheduled	645	689
Admitted	690	735
Lump sum retirement benefits		
Brent	2,812	4,775
Scheduled	222	251
Admitted	306	249
Lum sum death benefits		
Brent	423	690
Scheduled	0	16
Admitted	0	190
	24,227	**28,376**

6 Payments to and on account of leavers

Refund to members leaving service	16	45
Individual transfers to other schemes	3,677	4,824
	3,693	**4,869**

7 Administration expenses

Administration and processing	982	1,055
Actuarial fees	45	61
Audit fees	43	39
	1,070	**1,155**

8 Investment Income

Dividend income equities	7,640	7,535
Income from fixed interest securities	4,011	2,902
Income from property unit trusts securities	1,345	1,104
Income from private equity	287	663
Interest on cash deposits	795	38
Infrastructure	0	68
Commission recapture	42	3
Miscellaneous	189	296
Class action	31	4
	14,340	**12,613**
Irrecoverable tax	(717)	(554)
Total investment income	**13,623**	**12,059**

9 Investments

	Value at	Purchases	Sales	Change in Market	Value at
	31.03.09	At cost	Proceeds	Value	31.03.10
	£'000s	£'000s	£'000s	£'000s	£'000s
UK equities-quoted	73,308	5,212	12,928	34,733	100,325
Global equities-quoted UK Alliance	7,180	14,268	10,531	3,804	14,721
Global equities-quoted Alliance	59,465	113,089	92,209	31,733	112,078
Fixed interest (including unit trusts)	75,485	40,359	47,443	13,391	81,792
Property UK FOF UT	18,998	942	0	(209)	19,731
Property European FOF UT	10,133	0	0	(3,377)	6,756
UK equities small companies UT	9,477	129	0	5,841	15,447
Private equity-YFM/CapDyn LLP	25,920	12,798	0	(387)	38,331
Hedge fund Open ended Trust	36,878	0	0	4,964	41,842
Infrastructure LLP	0	5,814	969	166	5,011
GTAA Open ended Trust	5,951	0	0	5,499	11,450
	322,795	**192,611**	**164,080**	**96,158**	**447,484**
Cash deposits	16,720	0	11,184	140	5,676
Henderson Bond Future	0	(64)	15	79	0
Henderson FX	(34)	27,504	27,504	38	4
AllianceBernstein FX	(120)	179,243	178,847	(276)	0
AllianceBernstein Futures	5	258	148	(110)	5
	339,366	**399,552**	**381,778**	**96,029**	**453,169**
Investment income due	836				943
	340,202				**454,112**

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 nine funds managed by Capital Dynamics, the Capital Fund for London and to the Alinda Infrastructure Fund. As at 31st March 2010, outstanding commitments totalled £97.6m. However, previous experience indicated that funds only call around 60% of commitments, so that actual payments are likely to be much less than outstanding commitments.

Fixed interest securities

	2008/09 £000s	2009/10 £000s
Segregated		
UK public sector	15,831	14,769
Pooled		
UK corporate – open ended unit trust	23,591	22,325
Overseas government open ended unit trust	3,928	8,834
Secured loans open ended unit trust	15,558	8,630
Credit opportunities open ended unit trust	0	11,534
Credit alpha open ended unit trust	0	11,062
Currency fund open ended unit trust	0	1,255
Absolute return fund open ended unit trust	14,659	0
Infrastructure Limited Partnership	1,370	812
Money market fund	548	2,571
	75,485	**81,792**

Pooled investment vehicles (excluding fixed interest).

	2008/09 £000s	2009/10 £000s
Property - UK fund of funds unit trust	18,998	19,731
Property - European fund of funds unit trust	10,133	6,756
UK Equities – small companies unit trust	9,477	15,447
Private equity limited partnerships	25,920	38,331
Hedge fund open ended trust	36,878	41,842
Infrastructure limited partnership	0	5,011
GTAA open ended trust	6,000	11,450
	107,406	**138,568**

Derivative Contracts	**2008/09 £000**	**2009/10 £000**
Currency – Henderson	(34)	4
Futures – bonds	-	-
Futures – equities	5	5
Currency AllianceBernstein	(120)	-

Type of derivative	Expiration	Economic exposure value £000	Fair Value Asset	Liability
Henderson				
UK Sterling	28th June 10	636	-	
US Dollars	28th June 10	(631)	4	
Euro	28th June 10	(5)	-	
Futures UK LIFFE Long Gilt	28thJune 10	1032	-	
Futures USA CBT 10 year	21st June 10	694		-
Futures USA Long Bond	21st June 10	(846)	-	
Futures EUX Euro-bund	8th June 10	(1094)		-
AllianceBernstein				
Futures DJ EURO STOXX 50	June 10	102	-	
USA S&P 500	June 10	532	5	-

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

a) Gilt futures. The manager purchases exposure to the value of gilts at a future date, paying a margin that increases / reduces as the value of the future varies. Futures are used because the market is liquid and costs are lower.
b) Equity futures. The manager can purchase exposure to an equity market index that rises / falls in line with market movements. Again, futures are used because they are cheap, liquid, and give additional exposure.
c) Currency exposure is obtained through futures, and has two main purposes. First, the pooled currency fund managed by Mellon took views on currency movements, seeking to make gains as currencies rose /

fell. Second, the Fund has sought to protect the value of investments against adverse currency movements by fixing the sterling value in the future.

d) Global Tactical Asset Allocation (GTAA) seeks to make gains through the relative movements in currency, bonds and equities. Exposure is gained through a pooled fund managed by Mellon.

AVC Investments

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:-

	2008/09 £000s	2009/10 £000s
Equitable Life	127	132
Clerical Medical	1,018	1,235
	1,145	**1,367**

10 INVESTMENT MANAGEMENT EXPENSES	2008/09 £000s	2009/10 £000s
Administration, management and custody fees	1,300	1,340
Performance measurement fees	18	18
Other advisory fees	14	77
	1,332	**1,435**

11 CURRENT ASSETS		
Contributions due		
Employers	381	569
Employees	110	92
Additional voluntary contributions	3	2
Other miscellaneous debtors	358	308
	852	**971**

12 CURRENT LIABILITIES		
Management / advisor's fees	(176)	(222)
Lump sums not paid	0	0
Accrued expenses	(1,305)	(46)
	(1,481)	**(268)**

	Pension Fund Sub Committee 28TH September 2010 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL
Report Title:	**Monitoring report on fund activity for the quarter ended 30th June 2010**

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 30th June 2010. 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) Equity markets fell sharply during the quarter, but other markets were fairly stable. Economic growth is improving.

b) The Fund has fallen in value from £455m to £424.6m, and has underperformed its benchmark over the quarter (-2.1%) as a result of asset allocation (-0.4% - overweight equities, underweight hedge funds and property) and stock selection (-1.7% - underperformance in global equities, bonds and hedge funds). The Fund underperformed the average local authority fund (-0.4%), as a result of underperformance in bonds and global equities, offset in part by gains through asset allocation (higher exposure to alternatives / lower exposure to equities). Over one year, the Fund has underperformed its benchmark (-0.2%) as a result of poor returns from asset allocation (-1.3 – higher exposure to cash and bonds / lower exposure to equities, property and GTAA) offset by good stock selection (+1.2% - UK equities, bonds, hedge funds, private equity and GTAA). Over one year, the Fund has also underperformed the average fund (-4.7%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities.

2. RECOMMENDATIONS

Members are asked to note this report.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 31ST MARCH 2010

3.1 All equity markets fell during the quarter on worries about European banking, economic growth and fiscal tightening by governments. The UK fell by 13%, USA 11%, Germany 1%, HongKong 5% and Japan by 15%. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates fell during the quarter. Concerns about the European banking system and various eurozone countries (Greece, Portugal and Spain) have affected these markets, but UK has benefited from a safe haven status.The Quantitative Easing programme in UK has been suspended at present.
- Headline inflation (RPI) rose by 4.7% in the year to August (5.1% May), and the Index of Consumer Prices (CPI) rose by 3.1% (3.2% May). It is expected that inflation will fall in the second half of 2010 as spare capacity and low pay increases bear down on prices, but there are concerns about inflationary pressures arising from food, raw materials and VAT.
- Average earnings growth (including bonuses) was 1.8% p.a. in July (2.7% May), below the Bank of England's 'danger level' (4.5%). Unemployment has fallen to 1.46m, but may rise as public expenditure is reduced and taxes raised following the recent budget.
- The UK economy grew by 1.2% in Q2 2010 (1.7% over a year). GDP is expected to grow by 1.5% / 2% in 2010 (and 1.5% / 2% in 2011).
- It has been anticipated that consumer spending will fall, though retail sales were up 1.3% in the year to June. The squeeze on incomes, and the decline in equity withdrawal from the housing market following price falls, may depress demand. Although, house prices have risen by 3.9% over one year to August (Nationwide), recent figures have shown falling prices. Mortgage approvals are only 60% of their level two years ago, but have risen since 2009. Capital Economics still expects further house price falls (15%/20%).

In summary,the recession has ended but interest rates are expected to remain low. The government was using both fiscal and monetary policy to combat the downturn, but fiscal policy will be tightened over the next five years. The recovery is expected to be slow with occasional setbacks, but sentiment has improved considerably.

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 may grow by 3% in 2010 (but only 1.5% in 2011) following tax cuts, interest rate cuts, and quantitative easing programmes. Improved payroll data, strong retail sales and a rebound in home construction had indicated that a recovery was underway, but recent figures have shown the recovery to be faltering. It is anticipated that company earnings will also improve. It is expected that Eurozone GDP will grow by 1.5% in 2010, supported by strong growth in Germany. Growth in China and India will be around 12% and 9% respectively in 2010 – emerging market growth is strong and providing export growth to developed economes – and China has raised interest rates and tightened banks' reserve requirements. The world economy is expected to grow by 4.6% in 2010, but only 2% in 2011.

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 market movements in equities.

Table 1: Asset Allocation as at 31st March 2010 compared to the Benchmark

Market (1)	Market Value 31.03.10 £M (2)	Market Value 31.03.10 % (3)	WM LA Average 31.03.10 % (4)	Fund Benchmark 31.03.10 % (5)	Market Value 30.06.10 £M (6)	Market Value 30.06.10 % (7)	WM LA Average 30.06.10 % (8)
Fixed Interest							
UK Gilts	14.9	3.3	10.1	4.5	17.1	4.0	11.0
Corp.Bonds	22.3	4.9	*	4.5	24.4	5.8	*
IL Gilts	-	-	4.4	-	-	-	4.8
Overseas	0.5	0.1	2.0	-	-	-	1.9
Emerg. Market	8.3	1.8	-	2.0	8.3	2.0	-
Infrastructure	0.8	0.2	-	-	0.8	0.2	-
Secured loans	8.6	1.9	-	2.0	8.5	2.0	-
Credit Opps.	11.5	2.5	-	2.5	11.6	2.7	-
Credit Alpha	11.1	2.4	-	2.5	10.9	2.6	-
Currency Fund	1.3	0.3			1.1	0.3	
Equities							
UK FTSE350	117.2	25.8	30.0	18.5	101.1	23.8	28.8
UK Smaller co's	15.4	3.4	*	4.0	14.5	3.4	*
Overseas	111.4	24.5	35.9	26.5	98.5	23.2	34.3
USA	55.9	12.3	10.8	-	51.8	12.2	11.6
Europe	22.1	4.9	9.3	-	17.6	4.2	9.5
Japan	7.7	1.7	3.8	-	6.9	1.6	4.2
Pacific	9.9	2.2	3.8	-	8.6	2.0	4.3
Other	15.8	3.4	6.1	-	13.6	3.2	6.0
Other							
Property – UK	20.5	4.5	6.1	8.0	22.5	5.3	6.8
Property – Eu.	6.8	1.5	*	*	6.1	1.4	*
Hedge funds	41.9	9.2	2.3	10.0	40.7	9.6	2.6
Private Equity	38.1	8.4	3.1	8.0	38.2	9.0	3.4
GTAA	11.5	2.5	1.2	4.0	9.9	2.3	1.2
Infrastructure	5.0	1.1	*	2.0	5.1	1.2	*
Cash	7.7	1.7	4.0	1.0	5.3	1.2	4.0
Total	**454.8**	**100.0**	**100.0**	**100.0**	**424.6**	**100.0**	**100.0**

3.5 The main changes to the Brent Fund have occurred as a result of market movements, agreed rebalancing and increased exposure to private equity. During the quarter, £1.1m was invested in private equity and £1m in UK property. It has been agreed that £1.25m per month should be invested in global equities (until May 2010). Since the end of the quarter there has also been further investment in UK property (£1m) and private equity (£2.4m).

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 2010.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30.06.10			Year Ended 31.03.10			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
UK Equities			-11.5			21.2	
UK Equities	-11.5	-11.9		22.3	21.1		FTSE 350
UK Small Caps	-6.0	-5.3		16.0	20.3		FTSE Smallcap ex IT
Global Equities	-13.6	-10.7	-11.3	13.7	15.7		FTSE World 75% Hedge
North America	-11.5	-10.3	-10.4	36.7	26.1	25.8	FTSE USA
Europe	-17.6	-14.4	-13.6	57.4	15.9	17.3	FTSE Eu Ex UK
UK		-11.8	-11.5		21.1	21.2	FTSE All Share
Japan	-11.7	-8.7	-8.9	45.7	10.5	12.8	FTSE Japan
Pacific (ex Jap)	-12.4	-10.0	-8.4	67.8	32.5	31.3	FTSE Pac. Ex Jap
Emerging	-16.3	-11.1	-6.9	76.8	23.2	34.1	FTSE World (Other)
Fixed Interest							
Total Bonds	0.8	2.1	2.0	14.9	7.3	13.9	Brent benchmark
UK Bonds	4.9	4.5	2.6	6.7	6.0	14.7	FTSE UK over 15 years
Index Linked UK	-	-	1.4	-	-	9.6	-
Corp Bonds	1.5	1.9	-	14.4	15.9	-	iBoxx Sterling Non-gilt
Secured Loans	6.3	0.9	-	52.9	4.0	-	3 month LIBOR +3%
Credit Opportunities fund	8.3	1.4	-	8.3	5.0	-	3 month LIBOR+5%
Other							
UK Property FOF	5.6	3.6	2.8	25.4	23.9	17.9	IPD Pooled index
Eu Property FOF	-8.9	1.9	-	-38.5	8.0	-	IPD All properties
Hedge Funds	-2.8	1.1	-0.6	5.1	4.5	8.9	3 month LIBID+4%
Private equity	-2.3	0.1	-0.3	7.4	0.4	9.4	LIBID 7 Day
Infrastructure	4.1	1.1	-	-	-	-	3 Month LIBID +4%
GTAA	-13.1	-12.6	-	47.7	19.8	-	FTSE 100
Cash	-0.5	0.1	0.7	n/a	2.4	1.7	GPB 7 DAY LIBID
Total	**-7.1**	**-5.0**	**-6.7**	**14.0**	**14.2**	**18.7**	

3.7 Details of individual managers' performance tables are attached in Table 3, which shows three month, one year and longer-term information. Returns for the quarter underperformed the benchmark by 2.1%. Part of the underperformance arose as a result of asset allocation (overweight equites, underweight hedge funds and property). The main stock selection factors were:-

a) Fixed interest. The core portfolio underperformed as long dated government bonds rose in the general 'flight to safety'. The manager had overweighted shorter dated bonds, expecting rising yields, and corporate bonds. The satellite fund fell in value as markets became nervous about credit worthiness.

b) Hedge fund of funds underperformed as equity related, macro, event driven and multiple strategies, those that had previously added value in rising markets, suffered in the equity market sell-off. The manager reports that various hedges did not work because many managers were trying to use the same protection – and prices moved accordingly. It appears that markets were highly correlated.

c) GTAA. The manager marginally underperformed as the overweight to global equities (against bonds) was unsuccessful as markets fell. However, two strategies (bond v bond and currency) added value. In particular, the overweight in USA bonds and Japanses yen, and the underweight in the euro, added value equities.

d) Global equities underperformed the benchmark as both value and growth stock selections were unsuccessful. In particular, both financial and materials stocks lost relative value in the market sell-off.

e) Property. The manager outperformed the benchmark, mainly as a result of a distribution from the Protego fund whose value had previously been reduced to nil but also as a result of overweighting the London property market. The European market is bottoming out, and the manager is looking for new funds to commit cash. Most of the underperformance arose as a result of currency (the falling euro).

3.8 Over one year, the Fund underperformed the benchmark by 0.2%. Asset allocation – lower exposure to UK Small companies and overseas equities, higher exposure to bonds and cash (held to fund the Infrastructure mandate) - has been negative. Stock selection added value - private equity, global equities and UK small companies underperformed, but other stock selection was positive – UK equities, bonds, GTAA and hedge funds added value.

3.9 The relative underperformance of the Brent fund against the WM Local Authority average in Q4 (0.4%) arises as a result of poor stock selection in global equities and hedge funds. This is disappointing as asset allocation added value through low exposure to equities / high exposure to alternative investments.

3.10 The Brent fund has underperformed the average local authority fund by 4.7% over one year, mainly because it has had a lower exposure to equities (higher exposure to alternatives – mainly hedge funds and private equity) in a period when equities have performed very strongly. Relative performance has also suffered as a result of reduced returns in global equities.

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

3.11 There has been some purchases and sales during this quarter to invest dividends (£0.9m) improve tracking error, rebalance the Fund towards global equities, and invest in private equity.

Purchases
a) Took up rights issues.

Sales
a) Sold stocks to ensure more accurate index tracking or as they left the index (such as Edinburgh Dragon Trust).
b) Sold stocks to fund investment elsewhere (£0.8m).

Future Strategy for the UK FTSE350 Index tracking fund

3.12 The strategy is that of tracking the FTSE 350 within 0.5% over the year. Activity during July and August included selling stocks to fund increased exposure to property and private equity.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Equity markets have risen sharply during July as worries about banking markets recede and investors focus on earnings growth. A number of managers (AllianceBernstein, Henderson, Fauchier and Mellon) report that strategies that lost value in the previous quarter have added value in July. August and early September have proved to be more volatile, but equity markets remain well above the levels of the end of June.

3.14 The 75% currency hedge on the global equity portfolio managed by AllianceBernstein was reintroduced on August 2nd following consultation with the Chair, the Independent Adviser and the manager. The hedge was removed amid fears that sterling may collapse in value. However, although the currency initially fell from 1.51 dollars to 1.43 to the £, the emergency budget and good Q2 GDP figues boosted the value of sterling. The hedge was reintroduced at around 1.57 dollars to the £.

3.15 Gervais Williams, the head of the small companies team at Gartmore and manager of the UK and Irish Small Companies Fund, has resigned. He has been replaced by Adam McConkey, his deputy and a long time member of the small companies team. Processes and procedures will remain the same. I am meeting Adam McConkey and will update members on the outcome of that meeting and other actions taken.

3.16 Members will be aware that the value of the investment in the Henderson PFI Secondary II Fund (Infrastructure Fund) has fallen sharply. It appears that a number of investors in the Fund are threatening Henderson with legal action on the grounds on negligence. I will investigate the options for Brent.

3.17 The Local Government Pension Scheme (LGPS) is currently under review following a long period of rising costs and negative publicity. Two recent announcements have helped funding levels – the switch from RPI to CPI will reduce inflation related payments to pensioners, and the two year pay freeze will reduce the rise in the value of benefits. John Hutton, the former Labour Cabinet minister is currently reviwing public sector pension provision, and will announce his proposals in early

October. It is expected that he may consider such cost reducing measures as a career average scheme (rather than final salary related), higher employee contributions and a higher retirement age.

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

AllianceBernstein – June 2010 quarter report.

Henderson Investors – June 2010 quarter report
Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, 020 8937 1472/1473 at Brent Town Hall.

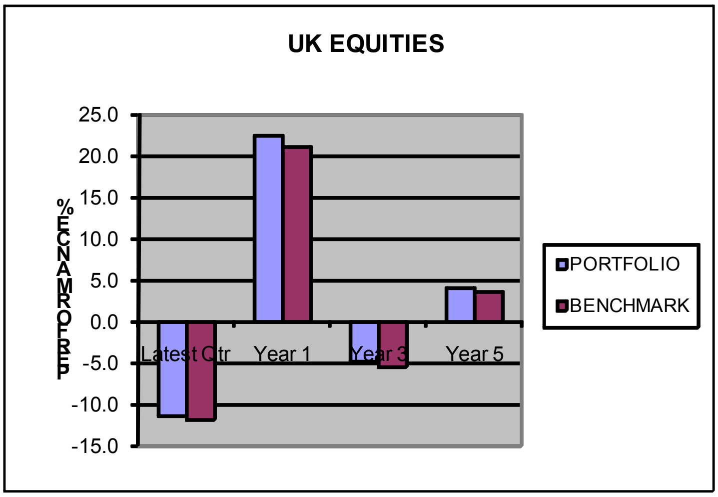
DUNCAN McLEOD
Director of Finance & CR

MARTIN SPRIGGS
Head of Exchequer and Investment

PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 30th June 2010

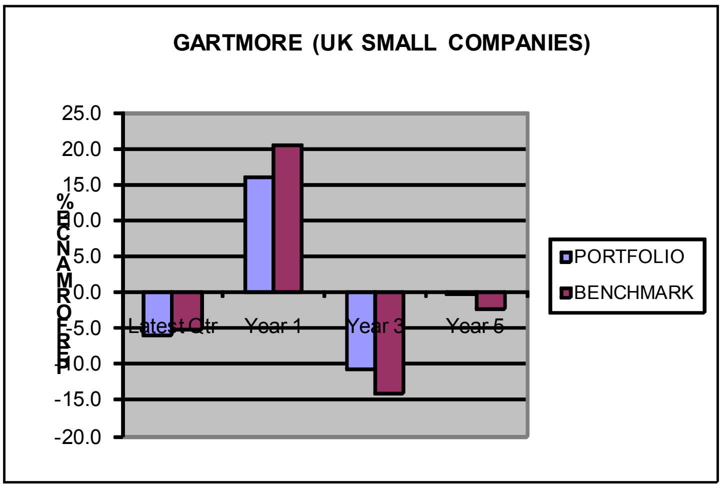
UK EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	-11.5	-11.9
Year 1	22.3	21.1
Year 3	-4.9	-5.6
Year 5	4.0	3.6



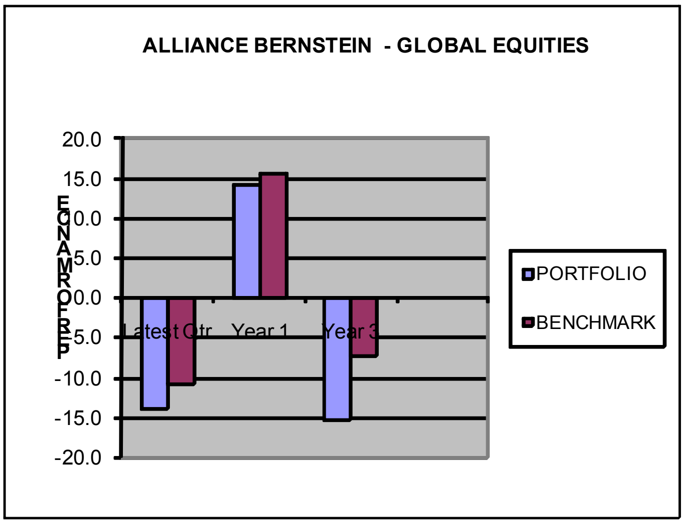
GARTMORE (UK SMALL COMPANIES)

	PORTFOLIO	BENCHMARK
Latest Qtr	-6.0	-5.3
Year 1	16.0	20.3
Year 3	-10.7	-14.2
Year 5	-0.1	-2.3



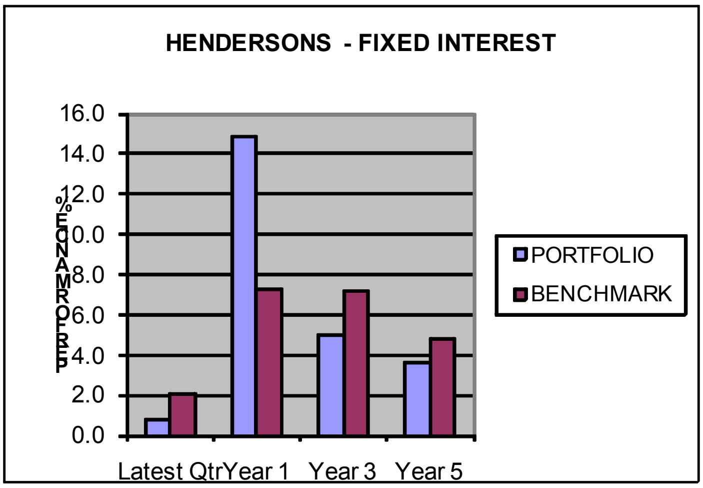
ALLIANCE BERNSTEIN - GLOBAL EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	-13.8	-10.7
Year 1	14.2	15.7
Year 3	-15.2	-7.2



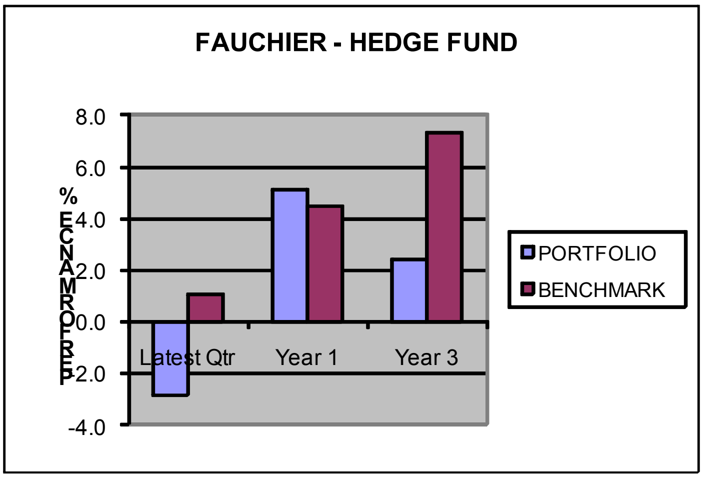
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	0.8	2.1
Year 1	14.9	7.3
Year 3	5.0	7.2
Year 5	3.6	4.8



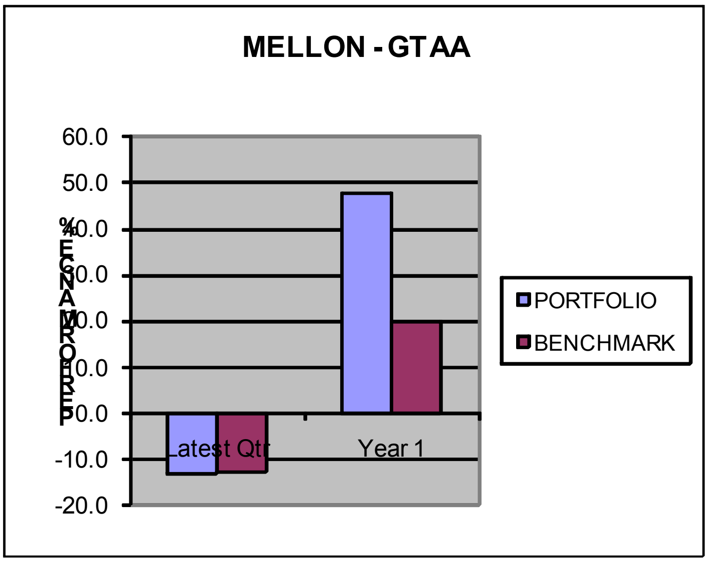
FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	-2.8	1.1
Year 1	5.1	4.5
Year 3	2.4	7.3



MELLON - GTAA

	PORTFOLIO	BENCHMARK
Latest Qtr	-13.1	-12.8
Year 1	47.7	19.8



Report from the Independent Adviser

Investment Report for the Quarter ended 30th June 2010

Market Commentary

The course of equities during the quarter proved to be highly volatile as markets both in the UK and globally were affected by a combination of rapidly moving and conflicting influences. By the end of the quarter the adverse factors overwhelmed the positive and, as the return table below shows, all the principal equity markets fell. By contrast, it was heartening that fixed interest returns were broadly positive as investors sought the haven of less risky assets.

Index returns expressed in sterling

	Indices	Quarter ended 30th June 2010
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	-7.0
Japan	FTSE Developed Japan	-8.7
North America	FTSE North America	-10.3
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	-10.4
UK	FTSE All Share	-11.8
Europe	FTSE Developed Europe (ex UK)	-14.3
Fixed Interest		
UK Gilts	FTSE British Government All Stocks	4.5
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.0
UK ILGs	FTSE British Government IL Over 5 years	1.6
Property	IPD	4.8*
Cash	Merrill Lynch LIBOR 3 Month	0.1

* Return for 3 months to 31st May 2010 (latest available)

Currency Movements for quarter ended 30th June 2010

Currency	31st March 2010	30th June 2010	Change %
USD/GBP	1.517	1.496	-1.4
EUR/GBP	1.121	1.221	9.0
USD/EUR	1.353	1.225	-9.5
Yen/USD	93.440	88.490	-5.3

Within the return table it is scarcely surprising that Europe (-14.3%) was the obvious laggard, principally due to concerns over the very future of the Eurozone and the much publicised fiscal deficits of some of the smaller European countries, especially Greece. UK (-11.8%) continued to be bedevilled by debt problems at all levels. Political worries also abounded in the run up to the General Election. Asia/Pacific (-10.4%) was troubled by the possibility that the pivotal economy of China might be slowing down at last. Japan (-8.7%) continued to be worried about the ability of its new Democratic Party to take sufficiently imaginative steps to begin to solve the long term deflation situation which has almost become an endemic condition in Japan. Even the return for Emerging

Markets fell 7.0%, but that was because they fear that their growing economies will be affected by a lower global demand for their exports on which they are still reliant.

Overall returns in the Fixed Interest sub sectors were helped by their presumed attraction as a form of insurance in the volatile background that affected other asset classes. Property continued to recover from its pronounced down cycle, especially in the UK. Advantage began to be taken of increasingly attractive prime quality valuations. Within the currency world it was the strength of sterling and the recovery of the US dollar (+9.5%) against the Euro were marked in response to the Eurozone's well publicised fiscal deficit and economic woes.

This was a particularly eventful quarter when equities and other asset classes had to contend with a combination of especially adverse factors. The principal negative factors which continued to inflict damage on the markets were those that have existed for some time namely:-

- Adverse comment regarding the fiscal indebtedness of the Eurozone nations together with their respective financial structures. The worst situations were clearly in the south (Greece, Portugal and Spain), who all suffered from weak GDP growth and high rates of unemployment. The better placed Eurozone members continued to be France, Germany and the Nordic region.
- Within the UK, the event of greatest influence was the General Election and the run up period to that day. The return of a coalition government has proved to be a calming influence. So far, the early honeymoon period of the coalition has gone surprisingly well with no apparent major disagreements.
- In the period leading up the UK's general election it was well known that the country's fiscal deficit was proportionally the second highest (£168b) in the European Union. All parties acknowledged that, post the election, the deficit could only be reduced by a programme of tax increases and severe cutbacks in public expenditure. The new government has unveiled its plans in that regard. It will take at least a three year grind to meaningfully reduce the deficit.
- The apprehension that the weaker economies with high fiscal deficits would suffer a double dip recession.
- External market influences included the intransigent situation in Afghanistan, the seemingly never ending Israeli/Palestinian deadlock and the worrisome regime in Iran with its nuclear threat. Although most of these confrontational factors have become discounted in the market place, they are capable of flaring up at any time and therefore have to be carefully watched.
- Governments and central bankers of the most indebted nations, particularly in the Western Hemisphere, are constantly wrestling with their respective debt problems. However, the proverbial silver cloud against this background has undoubtedly been the continuing low level of interest rates which are vital to maintain fragile rates of economic growth as nations struggle to recover from the effect of the sub prime crisis of 2007/2008 . It is worth recording just how low interest rate levels still are:-

	%
Bank of England	0.5
European Central Bank	1.0
Switzerland	0 - 0.75
Federal Reserve Board	0 - 0.25
Japan	0.10

The maintenance of low interest rates should help consumers and corporations.

- The BP oil spill saga will most likely run and run just as the Exxon Valdez incident did back in 1989. Certainly the aggressive rhetoric of President Obama and Congress has not helped. It seems clear that they are both politicking ahead of the mid term elections in November. Of immediate impact is the suspension by BP of its dividend for 2010 and the $20b subscription to a fund specifically to pay for the spillage and other claims. The dividend suspension will have a marked effect as it is generally estimated that the BP dividend accounts for some one sixth of the UK's total dividend income. It therefore follows that both private and institutional investors will be severely disadvantaged.
- The Organisation for Economic Co-operation and Development (OECD) has lifted its estimate of global growth for 2010 to 4.6% from 3.4% and for 2011 to 4.5% from 3.7%. A major contribution to this comes from the growing economies of the Eastern Hemisphere. The OECD warns that deflation is a risk.
- Stock markets are waiting to see how the world banking system is to be reorganised in order to protect nations from the upheavals of the last three years. Apart from special taxes on banks it does seem likely that banking activities may be split between investment banking and retail banking, similar to the laws that used to prevail in the USA under the Glass Stiegel Act. Certainly the activities of banks are going to be stringently monitored and regulated. Stress testing is just a start. Within the UK, responsibility for the banking system is now entirely that of the Bank of England, avoiding the tripartite system (Treasury, Government and Bank of England) that proved slow and inept at the time of the financial crisis. The changes will take time to unfold, but the result should be a more highly regulated, transparent and safer financial system with much lower levels of leverage and also improved liquidity.

UK

Positive Influences

- There is to be a new budgeting watchdog called the Office for Budget Responsibility "to provide independent economic and borrowing forecasts for the Government".
- On 19th May the Bank of England held interest rates.
- In the quarter to 30th April 2010, 31,038 new houses were registered, a substantial 74.0% increase on a year ago. New car registrations were 11.5% p.a. higher in April.
- Unemployment fell by 34,000 to 2.47M people in the quarter to 31st May. For May the unemployment rate inched lower to 7.8% from 7.9% in April.
- There is no shortage of international companies wishing to get close to the embattled BP, including Petro China, that country's largest oil and gas producer.
- Within the Emergency Budget of 22nd June, the Office for Budget Responsibility forecast that GDP would grow 1.2% in 2010, 2.3% in 2011, 2.8% in 2012 and 2.9% in 2013. The Budget also estimated that CPI would fall to 2.7% by the end of 2010. Additionally, it forecast that the percentage of unemployed people would fall from 8.0% in 2010 to 6.1% in 2015/16. It was also announced that there would be a levy on bank balance sheets by January 2011, that corporation tax would be cut by 1% over the next 4 years taking it down to 24% by 2014/15, that

VAT would increase to 20% from the current 17 ½% from 4th January 2011 and that the rate of CGT would rise from 18% to 28%.

- The Office for National Savings reported that public sector net borrowing was £16.0B in May versus consensus estimates of £18B.
- The Chancellor George Osborne announced that the FSA would be abolished with a commensurable increase in the powers of the Bank of England. The principal new remit for the Bank of England is to prevent a build up of risk in the financial system in addition to the Bank's monetary policy roll.
- Retail sales in June advanced by a resilient 1.0%, the strongest increase for a year.

Negative Influences

- The British Bankers' Association said that lending to financial companies in April fell by £1.1B.
- The fiscal budget now stands at a mammoth £156B.
- On 1st June such was the concern over the leakage from BP's Macendo deep water oil well in the Gulf of Mexico and its damage to the eco system that the company's shares traded 13% lower on the day. It was feared that BP might default on its debts. Additionally, the Obama administration was pressurising BP not to pay shareholders a dividend before the total cost of the oil spill clean up could be estimated.
- On 10th June the Bank of England left interest rates unchanged.
- Whilst the purchasing managers index increased fractionally in May to 55.4 from the 55.3 level of April, this was a lesser figure than the market had been expecting.
- In the first quarter of 2010 the deficit in goods and services reached £9.7B from the £8.7B in the previous quarter. The principal excuse for this deterioration was the weakness in demand from the Eurozone, the UK's biggest trading partner.
- CPI inflation in June was 3.2%. This compares with the government's target of 2.0%. Inflation was affected both by the high price of oil and also January's VAT rise from 15% to 17.5%. A year ago Mervyn King (the Governor of the Bank of England) had been forecasting inflation of only +0.7%!
- In the first quarter of 2010 there were a record 35,680 insolvencies.
- The overly aggressive rhetoric being used against BP by President Obama is no doubt spurred by November's mid term elections. His recent hostile attitude is scarcely likely to improve Anglo American relationships at this critical time. Perhaps Obama should recall that the sub prime and consequent financial banking disaster was spawned in the USA. Two can play the international blame game!
- The International Monetary Fund estimates that the UK GDP growth rate will be 1.2% in 2010 and 2.1% in 2011 versus the government's estimate of 2.3%.
- The National Institute of Economic and Social Research estimates that GDP grew by 0.7% in the second quarter of the year.
- The new Office for Budget Responsibility (OBR) forecasts that the overall fiscal deficit for 2010/11 will be £155B down from original estimates of £163B.
- The Fitch rating authority reduced its BP credit rating from AA to BBB.

- BP announced, in the aftermath of the oil spill and pressure from the US government, that it would suspend its dividend this year and pay $20B into a ring fenced account to be phased over 4 years specifically to clean up the damage as a result of the spill.
- Industrial production receded 0.4% in May against estimates of +0.4%.
- The Government decision to switch from using RPI to CPI when updating the value of private pension payments has caused a stir in the fixed interest markets where the prices of index linked bonds fell.

North America

Positive Influences

- Construction spending grew by 2.7% in April.
- On 1st June the Bank of Canada raised interest rates by a ¼% to ½%, the first rate increase since July 2007.
- The Commerce Department reported that retail sales advanced by 0.4% in April. This was twice the economists' consensus estimate.
- The unemployment rate for June eased back to 9.5% from May's 9.7%.
- Headline inflation decreased to 3.2% p.a. in June (May 3.4%).
- On 23rd June the Federal Reserve Board (FED) kept interest rates unchanged.

Negative Influences

- The trade deficit in May was $40B, little changed from April and March.
- President Obama ordered all 33 deep water oil rigs in the Gulf of Mexico to halt drilling. Indeed, he proposed a 6 month moratorium on offshore drilling. This will certainly impact both economic growth and also job creation. Ready access to energy has always been so vital to the US economy and has been considered somewhat of a divine right by the population.
- The Commerce Department revised the first quarter 2010 GDP growth rate from 3.2% to 3.0%. This compares with economists' estimates of 3.4%.
- Existing home sales dropped by 2.2% in May whilst new home sales fell by 32.7%, the lowest level since records started in 1963.
- The FED reduced its estimate of GDP growth in 2010 to 3.0 – 3.5% from its previous April estimate of 3.2 – 3.7%.
- June retail sales fell a further 0.5% from May's slide of 1.1%. This was worse than forecast.
- The Institute of Supply Management's index of non manufacturing business decreased to 53.8 in June (May 55.4).
- The Conference Board's confidence index fell dramatically to 52.9 in June from 62.7 in May. This was a much steeper fall than expected due to the state of the economy and the labour market.
- The National Association of Realtors announced that pending house sales collapsed by 30.0% in May against economists' estimates of a 12.5% fall.
- The Institute of Supply Management's manufacturing index declined to 56.2 in June against May's 59.7, a much larger drop than expected.
- The US labour force shrank by 652,000 in June, the second largest monthly fall since 1995.

- Durable goods sales fell by 1.1% in May.
- Housing starts fell by 5.0% in June.

Europe

Positive Influences

- On 10th May the European Union and the International Monetary Fund announced a €750B rescue plan to help the most indebted nations within the Eurozone.
- On 13th May Portugal introduced an emergency tax on wages and profits to help tackle the nation's budget problem.
- On 27th May the Spanish parliament passed an austerity package. Not before time.
- On 10th June the European Central Bank (ECB) left interest rates unchanged. The ECB's governor announced unlimited 3 month loans to last to the end of 2010 in an attempt to encourage banks to meet their customer financing needs.
- On the whole, corporations in Sweden, Finland and Norway have exhibited robust earnings growth, outperforming most other European countries.
- Several Eurozone countries have now imposed a ban on short selling programmes. These bans were initiated by Germany, especially in regard to Eurozone government bonds.
- There are now, at last, some signs that Portugal and Spain are introducing emergency measures to improve their finances.
- In a great austerity drive Spain cut civil service pay by 5% to help reduce the country's budget deficit.
- China's State Administration for Foreign Exchange, which manages the country's currency reserves, stated "Europe has been, and will be, one of the major markets for investing China's exchange reserves". Similar backing for the Euro was also stated by the Kuwait Investment Authority and South Korea.
- The Eurozone is conducting stringent stress tests on 91 banks focusing upon balance sheet strength.
- Trichet, head of the ECB, stated "a double dip recession is not at all what we are observing".
- Angela Merkel, the German Chancellor, announced an additional €80B of public spending cuts.
- German industrial production increased by 2.6% in May in part due to strong demand from China.
- German exports expanded by a marked 9.2% in May.
- German engineering orders in May advanced by a prodigious 61.0%.
- At the EU Summit meeting on 17th June there was a call to impose a general levy on European banks to ensure that they contribute to the cost of overcoming the financial crisis.
- Spain is to reform its rigid labour market and is to publish stress test results on its banks. At last a step in the right direction.
- France is to increase its retirement age from 60 to 62.

Negative Influences

- Hungary's economic condition became increasingly weak with the previous government having manipulated the official macro economic data. Rather like the Greek government.
- The Cajasur savings bank failed and its control was passed to the Bank of Spain. There are 45 such banks most of which are involved in Spain's ailing property market.
- Eurozone banks have become increasingly reluctant to lend to each other for fear of the counter party risk. As a result there has been a relentless rise in 3 month EURIBOR, the rate at which European banks charge each other for lending in Euros.
- France's purchasing managers' index for May eased back to 55.8 against 56.6 for April.
- On 31st May the ECB stated the Eurozone financial sector and economy are facing "hazardous contagion" from the region's debt crisis and forecast €195B in bank write downs this year and next.
- The Fitch rating agency down graded Spanish debt from AAA to AA+.
- Germany's ZEW index of investor confidence slumped to 45.8 in May (April 53.0).
- To underline the seriousness of the Eurozone situation the German Chancellor, Angela Merkel, said "what is at stake is no more and no less than the future of Europe, and with it the future of Germany in Europe". This statement was made in the Bundestag regarding support for Greece's drastic 3 year austerity programme.
- There are clear signs that the German Chancellor Angela Merkel's coalition government is showing further weakness.
- On 26th May a German 5 year bond auction failed, clearly demonstrating investor apprehension.
- German industrial orders in May fell by 0.5%, in marked contrast to the rise of 3.2% in April.
- German unemployment rose to 7.7% in June from 7.5% a year earlier.
- Eurozone unemployment fell by 6,000 in April, the first drop for 2 years.
- Angela Merkel, Nicolas Sarkozy and Silvio Berlusconi find themselves in an increasingly parlous state with their respective electorates. This is partly due to the harsh measures they have been enacting to bolster their economies.

Japan

Positive Influences

- The annualised rate of GDP growth for the first quarter of 2010 was revised up to 5.0% p.a. from 4.9% p.a.
- On 4th June Naoto Kan was elected the new leader of the Democratic Party after the resignation of Yukio Hatoyama as prime minister who had failed to live up to the electorate's high hopes for him. Mr Kan's leadership style is allegedly more dynamic than his predecessor. It is to be hoped that he and his party will be able to enact the essential strong measures which are so urgently needed to address Japan's economic woes.
- On 16th July the Yen surged to its highest level of the year against the US dollar.
- Exports fell by 1.2% in May (April +2.3%)

Asia/Pacific

Positive Influences

- The Chinese government hinted that, through its State council, property taxes would be reformed in order to cool down the developing property bubble.
- China has agreed to spend £16B building oil refineries and other petroleum related infra structure in Nigeria in order to boost its reserves of crude oil.
- China's exports at +48.5% in May were much higher than estimated.
- China's trade surplus in May was $19.5B compared with only $1.7B in April
- On 19th June China announced it planned to introduce more flexibility into its exchange rate. It therefore seems likely that the currency peg between the renminbi and the US dollar will be broken. This announcement was cleverly timed, a week ahead of the G20 summit meeting.
- Singapore's first half 2010 GDP growth rate was a stupendous 18.1% p.a.
- The Australian economy added 45,900 jobs in June well ahead of estimates of 15,000.
- On 11th June the New Zealand central bank raised interest rates by ¼% to 2 ¾%.
- On 27th June the Reserve Bank of India raised interest rates by ¼% to counter rising inflation (10.2% in May).
- In the first quarter of 2010 India's GDP grew by 8.6%.

Negative Influences

- Australia announced plans to impose a 40% tax on the profits of resource companies. Subsequently this proved to be a contributing factor in the replacement of the hitherto popular prime minister, Mr. Rudd.
- In China the purchasing managers' index of the Chinese Federation of Logistics and Purchasing fell to 53.9 in May from 55.7 in April, reflecting lacklustre demand from domestic and foreign markets.
- China's rate of GDP for the second quarter of 2010 fell to +10.3% (first quarter +11.9%).
- China's industrial production in June was 13.7% p.a. down from 16.5% p.a. in May.
- The purchasing managers' index in Korea for June decreased to 53.3 (May 54.6) whilst that of India receded to 57.3 in June from 59.0 in May. China's purchasing managers' index for June fell to 52.1, down from 53.9 in May.
- India's industrial output in May increased by 11.5% p.a. compared with the April rise of 16.5% p.a.
- Tensions between North and South Korea were further inflamed when the North Korean navy torpedoed a South Korean ship.

Conclusion

To an extent the dismal returns of the reported quarter to 30th June 2010 go some way to discounting all the many uncertainties which currently prevail in the market place, and it goes without saying that it is investor uncertainty, both institutional and private, that is continuing to negatively influence most asset classes. So when will the clouds of gloom part to produce a better market background in which equities, in particular, can recover their losses and once again make worthwhile advances? The answer appears relatively simple. That is to say the following will need to happen:-

- Banks to be restored to a measure of health with genuine stress tested stronger balance sheets. No more debt ridden skeletons should fall out of financial cupboards. This will be especially pertinent within the weaker Eurozone countries like Greece, Spain, Portugal and Ireland.
- Corporate earnings statements will need to reassure shareholders that their respective dividend streams will be maintained and preferably increased. They will also need to reassure that earnings will not be too badly impacted by the current recessionary background and that dividend levels can be maintained or even increased.
- It will be important for governments and central banks to demonstrate that they are enacting the remedial medicine so badly needed, in the Western Hemisphere especially, to resuscitate economic growth and to thereby improve the morale of banks, industrial companies and consumers. Most vitally, it will be essential for banks to be more prepared to lend to those companies and individuals whose spending is an essential stimulus to national economic growth.
- That governments are seen to take proactive measures both to stimulate current levels of economic growth and, at the same time, to ensure that inflation rates will be kept under control. This will be a difficult tight rope walking test which will probably result in pre-emptive increases in interest rates from the present record low historic levels. Such interest rate increases are likely to be incremental and modest.
- The most critical ingredient of all will be that it can be clearly seen that at last the current horrendous levels of fiscal deficits are being meaningfully reduced by timely actions by respective governments and central banks.
- It will be necessary for sufficient liquidity to continue to be injected into the financial system to provide the essential life blood on which consumers, economies, corporations and most asset classes are so reliant.
- And finally, that the threat of a double dip recession in the principal industrial economies can be removed to the relief and comfort of all investors. Rather than a double dip, it seems more likely that economic growth in the Western Hemisphere will be positive, but somewhat anaemic. On the other hand the economies of the Eastern Hemisphere should continue to demonstrate strong growth, but at a lesser pace than in 2009.

If sufficient progress can be made to achieve the above supportive conditions then, and only then, will equity markets breathe a collective sigh of relief and start to make up for so much lost ground. Fixed Interest markets will, as they usually do, continue to focus manically on the rates of national inflation, central bank action and other macro economic data. For this reason, fixed interest returns between now and the year end could be somewhat lacklustre, despite the attraction of this investment class as a safe haven. In general, central bank interest rates are likely to remain very low especially in the UK and USA. Only in the Asia/Pacific region could they increase to any extent. It therefore follows that returns on deposit cash will likely continue to be miserably low.

With regard to other asset classes; Hedge Fund of Funds, Global Tactical Asset Allocation and Currencies are likely to continue to struggle due to the common problem that there is still too much correlation amongst most asset classes. Therefore there are less anomalies of which to take advantage. However, opportunities exist within private equities as liquidity improves and the secondary markets appear increasingly attractive. Infrastructure also benefits from better liquidity and growing demand for its wide spread of underlying sectors such as:- road and bridge tolls, airports, utilities (especially water management), airports, prisons, hospitals and oil terminals. Opportunities also exist within commodities, but because this is a relatively volatile asset class a longer term view is necessary. It is worth re-emphasising that, in the longer term, alternative asset classes have a real role to play in a pension fund and an amalgam of these classes should serve to reduce the portfolio's long term risk. The caveat is that their performance attribution has to be most carefully monitored. Certainly to a much greater degree than the classic asset classes of equities, fixed interest and property.

In sum, despite the current collective gloom, it seems reasonable to suggest that for 2010 as a whole equity returns could be in the high single digit area. If that is achieved it would come as a relief to many and a distinct surprise to some of the current doomsayers and overly pessimistic media and financial journalists.

Valentine Furniss
25th July 2010

Investment Report for the Month of July 2010

Index returns expressed in sterling for the month of July 2010

	Indices	M/E 31.07.10
		%
Equities		
UK	FTSE All Share	9.4
Europe	FTSE Developed Europe (ex UK)	8.4
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	7.1
Emerging Markets	MSCI Emerging Markets Free	5.6
North America	FTSE North America	3.5
Japan	FTSE Developed Japan	-0.2
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	0.6
UK Gilts	FTSE British Government All Stocks	-0.7
UK ILGs	FTSE British Government IL Over 5 years	-2.7
Property	IPD	N/a
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency movements for month ended 31st July 2010

Currency	1st July 2010	31st July 2010	Change %
USD/GBP	1.512	1.566	3.6
EUR/GBP	1.214	1.202	-0.9
USD/EUR	1.246	1.303	4.6
Yen/USD	87.060	86.660	-0.5

The above return table shows that for the month of July all equity markets flourished (with the exception of Japan -0.2%) and produced robust performances in contrast to the negative equity returns for the quarter ended 30th June 2010. It is heartening that the UK (+9.4%) topped the leader board. By comparison with other regions it is surprising that the USA (+3.5%) was back marker apart from the laggardly Japan (-0.2%). The main reason for these welcome positive returns was the perception that market returns for the second quarter had over discounted the gloom (fuelled by double dip recession fears) and under-estimated both the ability of economies to recover and the level of corporate earnings and dividends to be expected.

The returns from Fixed Interest provided little succour and, apart from corporate bonds (+0.6%), returns were negative with index linked stocks recording a negative 2.7% return, mostly due to contradictory estimates of national rates of inflation with the general consensus of opinion appearing to suggest that inflation increases, after the current recession, would be at a lesser pace than in the past. What will have to be carefully monitored is the food constituent of inflation. Right now drought conditions in many countries and the damaging fires in Russia have caused the cost of certain crops like barley and wheat to double in a matter of weeks.

During July the main factors to affect stock markets were as shown below:-

In the UK

- It is early days, but the coalition government is operating surprisingly well with no apparent major rifts between its constituent parties.

In USA

- President Obama continues to struggle with his popularity ratings as the mid term elections loom even closer (November in fact). There is a view that the BP disaster helped Obama as he was able to take a strong nationalist stand.
- The Chairman of the Federal Reserve Board, Mr Bernanke, in his address to Congress, spooked stock markets by saying that the US economy faced “unusually uncertain” prospects.

In Europe

- There has been a veritable blitzkrieg on the banks to ensure that they now have sufficient balance sheet strength to cope with the types of financial pressures experienced during 2007 - 2009.
- A measure of calm is becoming apparent within the sovereign debt arena particularly in regard to the weaker members of the Eurozone, vide Portugal, Ireland, Greece and Spain.

In Japan

- The nation and its economy seems mired in its old fashioned and outdated policies and culture. Until this demonstrably changes it is as if the nation is destined for ever to malinger in the sloughs of deflation. Japan can derive some comfort from its large international companies together with a strong currency. But this in itself can work against the country’s export trade.

In Asia

- The principal talking point has been China's currency the renminbi. In that regard the Chinese government and central bank does not wish to be seen to bow to international pressure to revalue its currency, but at the same time the Chinese regime wishes to increase its status and become a far more influential force on the world stage. It therefore seems likely that the renminbi will be gradually revalued and will ultimately become unpegged from the US dollar.
- Asia is fast becoming the prime catalyst for the growth of world trade. Asian rates of GDP growth remain considerably stronger than their Western Hemisphere counterparts.

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

UK

- The Office for National Statistics (ONS) reported that GDP growth in the second quarter of 2010 rose by 1.2% which was double consensus estimates and represented the fastest pace of growth for 4 years. The ONS also reported that, in quarter 2, manufacturing grew by 1.6%, the service sector by 0.9% and business and financial services by 1.3%.
- The Bank of England stated that mortgage approvals were down 3.7% in June.
- The Purchasing Managers' Index receded to 53.1 in July from 54.4 in June.
- British factory purchases increased by 4.1% p.a. in June.
- July retail sales expanded by 2.6% p.a.

USA

- On 21st July President Obama signed a bill representing the most sweeping overhaul of Wall Street's regulation since the 1930s.
- On 23rd July the fiscal deficit was estimated at $1,471B, the largest on record, representing 10.0% of the national GDP.
- The White House estimates that the rate of unemployment will average 9.7% in 2010.
- June new home sales advanced by a substantial 23.6%, the largest increase since May 1980. To an extent this was a rebound from the 36.7% collapse in May.
- Second quarter GDP increased by 2.4% p.a. versus estimates of 2.6% p.a. (quarter one grew by 3.7% p.a.).
- Second quarter business investment was up 17% p.a. whilst consumer spending (70.0% of US activity) rose 1.6% (quarter one +1.9%).
- Durable goods orders in June fell 1.0% (May -0.8%), considerably worse than expected.
- The Federal Reserve Board's Beige Book adopted a cautious outlook warning that there were signs of a slow down.
- The Institute of supply Management's index of factory activity in July reduced to 55.5 (June 56.2) whilst its index of non manufacturing activity increased to 54.3 in July (June 53.8).
- Non farm payrolls in July contracted by 131,000 compared with an estimated fall of 65,000.

Europe

- Only 7 out of 91 banks that were stress tested failed the test, the implication being that these tests may have been too leniently applied.
- German retail sales fell 0.9% in June compared with a generally estimated 0.2% drop.
- German industrial orders advanced by 3.2% in June which was stronger than expected.
- German industrial production in June decreased by 0.6%.
- German exports in June grew by 1.9%.
- Italy's second quarter GDP rose 0.4%.
- The Eurozone's Purchasing Managers' index for July inched up to 55.8 from 55.5 in June.

Japan

- The main feature was the continuing strength of the Yen against the US $.

Asia/Pacific

- On 9th July, in order to cool inflationary pressures, the Bank of Korea increased interest rates by ¼ % on the back of estimates of GDP growth in 2010 of 5.8%. The country's exports continued to boom.
- China's Federation of Logistics and Purchasing reported that the Purchasing Managers' index slowed a marginal contraction in July to 51.2 from June's 52.1.
- Indonesia's GDP growth for the second quarter of 2010 was a robust 6.2% p.a. This was better than forecast.

Conclusion

The dichotomy for the course of equity markets, in the medium term, was always going to be the extent and speed with which it would be possible to reduce the respective ballooning fiscal deficits of the principal industrialised nations, particularly those in the Western Hemisphere. To do this requires a most delicate balancing act between central bank action on the level of interest rates, and governmental policies to increase taxes and reduce public spending. If the correct balance can be achieved then conditions can be created in which rates of GDP can recover and grow whilst inflation rates are simultaneously contained. This exercise is of course particularly applicable to those economies that suffered most in the toxic conditions resulting from the sub prime furore spanning 2007 - 2009. Those economies most affected have been the USA, Southern Europe (especially Portugal, Greece and Spain), Ireland and the UK. As widely publicised, such countries are continuing to wrestle with increased rates of taxation and deep public cost cutting exercises. Now at last, to the relief of those investors consumed with the paranoia of double dip recession, tentative signs are appearing in the aforementioned countries that the harsh remedial medicine and rigorous disciplines are beginning to work, albeit at a relatively slow pace. Should further progress be made by governments and central banks then the principal conclusions reached in the investment report for the second quarter of 2010 should hold firm. That is to say, it seems reasonable to suggest that equity returns for 2010 as a whole, could be in the high single digit area.

Valentine Furniss

Pension Fund Sub Committee
28th September 2010

Report from the Director of Finance and Corporate Resources

For Action	Wards Affected: ALL
Report Title:	**Private Equity Investment – Revised proposals from Capital Dynamics**

1. SUMMARY

The report proposes a revised private equity programme with Capital Dynamics.

2. RECOMMENDATIONS

Members are asked to agree:-

a) A revised investment programme and
b) To invest in a clean technology fund (the Solar Fund).

3 DETAIL

Background

3.1 Private equity involves investing in companies that are not quoted on any stock exchange. The companies may be businesses that have been purchased by a private equity group to take private for restructuring, or family / partnership businesses that are in private hands. Reasons for investing in private equity have included diversification, a good income stream as businesses mature and are sold, and additional returns – private equity has returned 5% / 10% above public equity markets over the long term. Successful private equity managers have been able to demonstrate a 'skill premium' through the use of leverage (borrowing to fund investments), restructuring and efficiency savings.

3.2 Particular aspects of private equity include:-

a) A requirement to maintain investment over all periods, because good or bad years (vintages) cannot always be forecast.
b) Investments lose value over the initial four / five years (unless there are specific factors, as in secondary funds) as a result of restructuring costs and management fees. This process is known as the J curve.

c) A steady return of cash as the investments mature and are sold. This leads to investors 'overcommitting' to funds (committing more money to a fund than they actually want to invest), so that they actually reach their target exposure. Before 2005, Brent 'overcommitted' by 50%, but this rose in the boom years 2005 – 07 to around 70% before declining back to 50%.
d) Slow investment. The private equity investment period tends to continue over around five years. Although fund of funds have managers with whom they have long term relationships and access, the marketing of new funds and investment in underlying companies (with follow-up investments) takes some years.

Brent Fund approach to private equity

3.3 In 2002, Brent committed £5m to the Capital Fund for London, a regional venture capital fund managed by Yorkshire Fund Managers and underwritten by the Department of Trade and Industry (DTI) for up to £10m losses. To date, Brent has invested £2.75m in the Capital Fund, which remain deep in the 'J curve' reflecting the nature of venture capital and the recent recession. The manager has completed the initial investment phase, and will now only make follow-up investments with companies that show good prospects. In the last set of accounts (to 31st December 2009), the Brent Fund showed a loss of £0.5m on our investment, but the Fund has four years to run and should recover as investments mature.

3.4 In 2003, Brent appointed Westport Private Equity (later taken over by Capital Dynamics) to establish funds that would invest with other pension funds in a diversified approach across markets, managers and types of private equity. In 2005, members agreed to increase exposure to private equity from 3% of the Fund to 8%, and in 2007 a revised programme was established to invest in:-

a) USA, European and Asian markets, introducing new funds every three or so years to maintain continuous exposure.
b) Secondary Funds that invest in more mature private equity opportunities purchased from other investors. Initially CD was given the flexibility to invest in secondaries within each fund, but it became apparent that it was more effective to construct a specific fund that mainly targets smaller deals that are less competitively priced.
c) A Co-Investment Fund that invests alongside other investors.

Current Issues

3.5 Members will be aware of the current problems in private equity – the sharp falls in public equity markets in 2007 – 09 caused falls (less sharp, but still around 25%) in private equity valuations. It appears that private equity managers may have overpaid for assets in the period 2005/06. Since then, there have been few Initial Public Offerings (IPOs, the main route for private equity companies to go public), valuations have remained low because earnings multiples are low, and investment opportunities have reduced. It was apparent in 2008 and 2009 that the pace of investment had slowed sharply. It is also apparent that banks are less willing to lend to finance private equity purchases, so that funds will be required to invest more equity and probably reduce returns in future. However, as prices have fallen the investment background has improved so that valuations are now rising. Over longer periods, private equity has outperformed public equity markets by around 5% / 10% per annum. The Brent investment programme is as yet immature – many funds remain in the J curve – so that although the manager believes that prospects are good, results remain uncertain.

3.6 When the revised private equity programme was agreed in 2007, with a target exposure of 8% (to rise to 10% over the longer term), it was assumed that the overall Brent Fund would grow at an average rate of about 8% and that the surplus of income over benefits would accelerate growth even further. However, falling investment markets from 2007 – 2009 mean that the current investment programme may take private exposure to around 11% of the Fund in 2011/12. However, managers are usually slower at launching new funds and making new investments than they expect.

3.7 I have recently reviewed the programme with Capital Dynamics (CD). The manager is aware of the slow growth of the Brent Fund, and will scale back some future investment in new funds, but has raised the following:-

a) The programme should continue to gain exposure to all vintages and to diversify across markets. The manager believes that current prices mean that there are good opportunities to make excellent returns – CD targets 12.5% / 15% per annum. New European (2011), Emerging Markets (2011 and 2012) and USA (2012) funds are planned.
b) Exposure to emerging markets may be more appropriate than simply investing in Asia, where opportunities have been slow to appear.
c) The 2009 takeover of HRJ in the USA, a fund of fund private equity and property investment house, has given access to top-tier venture capital managers that were previously closed to CD. At present, Brent will gain exposure to these managers through the USA fund of funds (25% of investment), but Brent may wish to consider exposure to USA venture capital. This asset class has given good returns in USA, unlike UK, where the technology bubble destroyed value.
d) CD is launching a $300m clean technology fund at the end of September. The house has recruited an experienced team to take advantage of solar energy (commercial roof-top panels) opportunities in USA. The manager plans 10 – 15 investments in three or more USA states, and has already constructed a large pipeline of deals made more favourable by 30% tax allowances. It appears that the USA power generation market works in a somewhat similar fashion to UK, with consumers being charged for the change to renewable energy. The energy generated may be bought by the property owner or fed into the grid. Producers are required to increase the share of energy produced from renewables year by year. CD believes that the J curve will be short, that capital will be returned quickly but that income will continue over the long term.

3.8 It is suggested that the Brent Fund commits £10m ($15m) to the Solar Fund. Although fees are in line with other funds (1.75% plus 15% of profits above a return of 8% per annum), the opportunity appears to be good and CD have recruited an experienced team to manage the investment process.

3.9 The commitments to individual funds managed by Capital Dynamics will be:-

	£m
European 2003	10.0
USA 2003	6.5
European Buyout 2005	15.0
USA 2006	10.0
European Co-Investments	5.0
European Mid Market 2008	20.0
Generation VII USA	15.0
Asia	5.0
Global Secondaries	20.0
Clean Technology	10.0

The Brent Fund will enter other new funds in Europe, USA and Asia as these are opened.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report..

5 DIVERSITY IMPLICATIONS

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

6 STAFFING IMPLICATIONS

6.1 None

7 LEGAL IMPLICATIONS

7.1 There are no legal implications arising from the plans.

8 BACKGROUND

8.1 Pension Fund Sub Committee – 1st October 2007 - Private Equity – Proposals to increase exposure through Capital Dynamics - .

9. CONTACT OFFICERS

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

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