



Brent Pension Fund Sub-Committee

Tuesday 26 June 2018 at 7.00 pm

Boardrooms 7&8 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

Councillors:

S Choudhary (Chair)
Aden (Vice-Chair)
Gbajumo
Lo
Maurice
Perrin
Shahzad

Substitute Members

Councillors

A Choudry, Kabir, McLeish and
Naheerathan

Councillors

Colwill and Kansagra

Non-Voting Co-opted Members

Francesca Hammond

UNISON (Employee Representative)

For further information contact: Joe Kwateng, Governance Officer
0208 937 1354; joe.kwateng@brent.gov.uk

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democracy.brent.gov.uk

The press and public are welcome to attend part of this meeting

Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences** - Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

- (a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party or trade union).

- (b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;

a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
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1	Declarations of personal and prejudicial interests	
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Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.

2	Minutes of the previous meeting	1 - 6
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3	Matters arising	
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4	Deputations (if any)	
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5	Monitoring report on fund activity for the quarter ended March 2018	7 - 24
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This report provides a summary of the Fund's activity during the quarter ended 31 March 2018. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

Ward affected: All Wards

Contact Officer: Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

6	Annual Reports and Accounts 2017/18	25 - 150
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This report presents the Annual Report and Accounts of the Brent Pension Fund for the municipal year 2017/18.

Ward affected: All Wards

Contact Officer: Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

7 Update from the London Collective Investment Vehicle (CIV) 151-156

The purpose of this report is to update the committee on recent developments within the London CIV and the timescales attached to making investment decisions.

I have attached an appendix to the main report.

Ward affected: All Wards **Contact Officer:** Conrad Hall, Chief Finance Officer
Tel: 020 8937 6528
conrad.hall@brent.gov.uk

8 Investment Advice Procurement 157-160

The purpose of this report is to set out the proposed procurement process to be adopted in relation to the contract for investment advice, where the current contract expires on 30 September 2018.

Ward affected: All Wards **Contact Officer:** Conrad Hall, Chief Finance Officer
Tel: 020 8937 6528
conrad.hall@brent.gov.uk

9 Regulatory Oversight of Local Government Pension Schemes 161-164

The purpose of this report is draw attention to the regulatory framework within which the Local Government Pension Schemes LGPS operates, as part of the Public Services Pension Act 2013, and the work that has been undertaken to date by Central Government.

Ward affected: All Wards **Contact Officer:** Conrad Hall, Chief Finance Officer
Tel: 020 8937 6528
conrad.hall@brent.gov.uk

10 Minutes of Pension Board - 12 March 2018 165-170

11 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.

12 Exclusion of Press and Public

The following item is not for publication as it relates to the following category of exempt information as specified in the Local Government Act 1972 namely:

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)"

13 Investment Strategy Review

171-252

This report presents the analysis and results of the investment review carried out by Hymans Robertson. This review follows on from the Fund's 2016 Actuarial Valuation. The purpose of the review was to assess the ability of the current funding/investment strategy to close the deficit gap as well fund future benefits in an affordable and stable way.

I have attached appendices to the main report.

Ward affected: All Wards

Contact Officer: Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
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- The meeting room is accessible by lift and seats will be provided for members of the public.

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 13 February 2018 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Aden and Shahzad.

Also present: Mr David Ewart and Mr William Marshall.

Apologies for absence were received from: Councillors A Choudry, Daly, Davidson, Perrin and co-opted member Francesca Hammond

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

None.

2. **Minutes of the previous meeting held on 7 November 2017**

RESOLVED:-

that the minutes of the previous meeting held on 7 November 2017 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Monitoring report on fund activity for the quarter ending September 2017**

The Sub-Committee considered a report from the Chief Finance Officer that provided a summary of the Fund's activity during the quarter ended 30 September 2017. The report also examines the economic and market background, and investment performance, as well as commenting on events in the quarter. Ms Folake Olufeko, Senior Finance Analyst introduced the report.

Members heard that in the third quarter (Q3) of the calendar year, the Fund increased by 1.9% (£15.1m) from £812.0m to £827.1m compared to an increase in the second quarter (Q2) of 1.2% (£9.3m). Overall, the value of the fund had increased by 6.7% in the first nine months of the year, of which 1.5% related to actual asset appreciation and the remainder, to contributions from capital calls. Although the Fund had seen a consecutive quarterly increase in the value of assets, its performance for the quarter was below benchmark level of 2%.

Ms Olufeko referenced the tables within the report that set out the performance of respective asset class and contractual commitments. Of note was the equities allocation, which had performed well in the last few quarters and therefore the total allocation has exceeded the target. Investments in Infrastructure saw a consecutive depreciation in value with a £3.1m drop in Q2 and £1.7m drop in Q3. Officers would continue to monitor the performance to inform future investment decisions. Ms Folake explained that the cash deposits balance of £70.2m was principally required to fund transfer values in relation to the College of North West London, to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments but in the interim was being invested in Money Market Funds and short term loans to other Local Authorities for interest returns.

Ms Olufeko continued that the Fund also realised a complete sale of the UK property investments in quarter 4 of 2016/17 and subject to market conditions, the European property investments were also planned to be run down in 2018. The Fund is monitoring developments and the opening of investment opportunities on the CIV platform with a view to transitioning assets across as soon as there were suitable sub-funds that are in line with the Fund's investment and asset allocation strategy. She then drew members' attention to table 3 in the report which set out the investment returns in individual market and added that officers would continue to monitor areas where performance was below benchmark.

In the ensuing discussion, members expressed concerns about the performance of Ruffer and sought officers' views on how this could be addressed and the time frame within which the situation could be addressed. Ravinder Jassar (Head of Finance) clarified that the negative performance of Ruffer was a concern but that actions had been taken to address the issues, including investing in short term equities against long term bonds which has had a positive effect.

Peter Davies (Independent Adviser) gave summary of his quarterly report. Members were informed that the forecast growth rate for the UK economy in 2017 had been revised downwards to 1.5% after sluggish growth in the second quarter and the estimated figure for 2018 even lower at +1.3%. Meanwhile, forecast growth rates in the other developed regions have been maintained or revised upwards. Mr Davies continued that for the second successive quarter, equity markets were little changed with the UK market continuing to deliver a return significantly below that of overseas equity markets, while Continental Europe had been by far the strongest region during the past year. The mid- and small-cap sectors of the UK market had out-performed the FTSE 100 over the past quarter and 12 months and in the case with bonds, there was very little net change in the yields on medium-term government bonds in the major markets.

In terms of outlook, Mr Davies informed members that although equity markets had edged gradually upwards despite geo-political concerns surrounding developments in North Korea and the Middle East, the impending interest rate rises in the US and UK, together with the tapering of quantitative easing by the US Fed – and possibly by the European Central Bank – were likely to act as a brake on equity markets as the cost of borrowing rises. Similarly, government bond market yields were likely to rise in response to higher short-term rates, unless they become 'safe havens' in the event of political crisis, or if global economic growth begins to slow down. In either of these situations, equities can be expected to weaken significantly.

RESOLVED:

That the performance report and the independent financial adviser's investment reports attached to the main body of this report be noted.

6. Report on PIRC 2016/17 local authority pension fund benchmarking

Members received a report which provided a summary of the benchmarking data for 2016/17, produced on behalf of the Fund by Pensions and Investment Research Consultants (PIRC). The report compared the Fund's performance and asset allocation with the best performing local authority pension funds. In presenting the report, Mr. Michael Almond (Finance Graduate Trainee) explained that the benchmarking undertaken by PIRC for 2016/17 compared the historic performance and asset allocation of the Fund against a universe of 60 local authority pension funds (approximately two thirds of all local authority pension funds). The Fund made an overall return of 17.3% in 2016/17, compared to the universe average of 21.4% and was outperformed by its peers over the medium to long term. This ranked the Fund in the 88th percentile.

Mr Almond continued that the best performing fund in the universe (Fund 1) made an overall return of 26.8% in 2016/17 with an equity allocation of 78%, which made a return of 32.7%. Most of the top 10 had an equity allocation above 60%, compared to the Fund's allocation of 50%, on which a return of 28.5% was achieved. Most of the top 10 also had a larger allocation to bonds and property. Furthermore, the Fund achieved a relatively low return of 5.4% from an 11% bonds allocation, compared to the Top 10 average of 11.7% from a 14.8% allocation. Over the long term, Brent had achieved a return of 5.9%, placing the Fund in the 98th percentile. The top 10 funds over this time period achieved returns of between 7.7% & 9%. There was a clear need for the Fund to achieve better returns from its existing allocation. This may be due to a number of factors including the subdivision of asset classes (e.g. UK Equity/Global Equity), which have not been analysed through this benchmarking exercise.

He informed members that the Fund had historically taken a relatively low risk approach to asset allocation than its peers and consequently had achieved a lower return over the same periods than the majority of funds. The analysis further reinforced the need for a review of the Fund's investment strategy, asset allocation and the level of risk that the committee believes the fund should be exposed to.

RESOLVED:

That the results of PIRC's benchmarking exercise in the appendices as discussed within this report be noted.

7. Investment Strategy Review

The Sub-Committee received a report that provided an update on the investment strategy review. Mr William Marshall (Head of LGPS Investments Clients) from Hymans Robertson circulated copies of the report and presented to the Sub-Committee. Mr Marshall started by giving an overview of key area of focus which covered the following area; objectives and beliefs; investment strategy review;

investment structure and implementation. He noted that the current strategy was one in which the committee set its own strategy, appoint managers and assumed responsibility for monitoring and governance. He continued that as we live in changing times, investment strategy ought to be a journey with key priorities on returns, high tolerance of volatility, increasing income and protecting gains with a high level of strategic review of risks every 3 years. In his view, the core attributes of a good Fund should include clarity of objectives, well defined investment beliefs with a clear an appropriate strategy and structure, fit for purpose managers and strong leadership.

Based on the Fund's beliefs (the framework for investment decisions), members should ask themselves whether the Fund's strategy reflected the beliefs, whether there were any gaps and whether they reflected the Fund's latest thinking. With these in view Hymans Robertson would undertake a survey which Mr Marshall encouraged members to complete and return.

RESOLVED:

That the work required to complete the review be noted.

8. **Minutes of Pension Board - 21 November 2017**

RESOLVED:

The minutes of Pension Board held on 21 November 2017 be noted.

9. **Any other urgent business**

None.

10. **Exclusion of Press and Public**

The following item is not for publication as it related to the following category of exempt information as specified under Part 1, Schedule 12A of the Local Government Act 1972, namely Paragraph 3

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)";

11. **London CIV Update**

The Sub-Committee received a report that provided an update on the recent developments within the London CIV and the timescales attached to making investment decisions. Ravinder Jassar (Head of Finance) in his presentation referenced a report by Towers Watson on London CIV which highlighted various issues including governance arrangements and performance.


RESOLVED:

That the recent developments with the London CIV be noted.

The meeting closed at 8.50 pm

S CHOUDHARY
Chair

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 Brent	<p>Pension Fund Sub-Committee</p> <p>26 June 2018</p> <p>Report from the Chief Finance Officer</p>
For Information	Wards Affected: ALL
<p>Quarterly monitoring report on fund activity: Quarter to March 2018</p>	

1.0 SUMMARY

- 1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2018. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

The main points arising are:

- a) In the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m.
- b) The rate of return for the financial year 2017/18 has been calculated by the Fund's custodian, Northern Trust, as +1.5%. However, due to a timing difference of valuations, the actual rate of return was +2%. Further information about this can be found in section 3.12 of this report.
- c) During the quarter ending 31 March 2018, the Fund decreased in value by 2.9% (£24.8m) from £855m to £830.2m primarily due to falls in the value of UK and Global Equities. By contrast there was an appreciation in value in each of the previous three quarters.

- 1.2 Further analysis on the performance of each fund is provided in the main body of this report.

2.0 RECOMMENDATIONS

- 2.1 Members are asked to note the Independent Financial Adviser's investment report and the Brent Pension Fund quarterly performance report.

Quarterly Review – Jan to Mar 2018

Peter Davies – independent financial adviser

This document is directed only at the Brent Council Pension Fund on the basis of our investment advisory agreement. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. Notwithstanding any provisions in the FCA Rules this report is focussed on performance over the prior quarter at your request. You are reminded that investment performance should generally be assessed over a much longer period of time.

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BRENT COUNCIL PENSION FUND

Quarterly Review, January - March 2018

Report by the Independent Financial Adviser

Economy

1. While all regions are expecting good growth in 2018, forecasts have moderated slightly since January, with falls in industrial production reported in the Eurozone, weaker than expected employment growth in the US and signs of softening in China.
(In the table below the bracketed figures show the forecasts made in January)

Consensus real growth (%)						Consumer prices latest (%)
	2015	2016	2017	2018E	2019E	
UK	+2.3	+2.0	+1.6	+1.5 (+1.4)	+1.5	+2.5(CPI)
USA	+2.4	+1.6	+2.3	+2.8 (+2.6)	+2.5	+ 2.4
Eurozone	+1.5	+1.6	+2.3	+2.4 (+2.3)	+2.1	+ 1.4
Japan	+0.6	+0.9	+1.7	+1.5 (+1.5)	+1.2	+ 1.5
China	+6.9	+6.7	+6.8	+6.6 (+6.5)	+6.4	+ 2.1

[Source of estimates: The Economist, April 14th 2018]

2. In March the Federal Reserve raised US interest rates by a further 0.25%, to the 1.5 – 1.75% range. Two of the nine members of the UK Monetary Policy Committee voted for a rate rise in March, but the recent slowing of the UK economy has made such a rise less likely in the near term. The UK Financial Statement in March included an improved level of public borrowing in the current tax year, and hinted at public spending increases in the Autumn Budget.

3. President Trump's pronouncements have continued to make headlines. After announcing planned tariffs on imported steel and aluminium (later modified to exclude several nations), he then proposed tariffs on certain Chinese imports, to which the Chinese government responded with its own list of US imports to be penalised. The US administration has seen the replacement of the Secretary of State, the Chief Economic Adviser and the National Security Adviser during the quarter, while President Trump is also scheduled to meet the President of North Korea in May.
4. After the poisoning of a former Russian agent and his daughter in Salisbury on March 3rd, many countries emulated the British government's action in expelling Russian diplomats from their embassies. In April US, French and UK forces launched co-ordinated air attacks on Syrian chemical weapons bases after the Syrian government had been accused of using such weapons against the inhabitants of Douma.
5. In Germany, members of the opposition SPD voted in favour of the renewal of a coalition with the CDU/CSU, allowing Chancellor Merkel to remain in office, while the shape of the Italian government remains uncertain after the General Election of March 4th produced big gains for the Five Star Movement. In South Africa Cyril Ramaphosa replaced Jacob Zuma as President.

Markets

Equities

6. Overseas equity markets started the year very strongly - US markets had risen 7% by January 26th – but the release of a US hourly wages figure of +2.9% ignited fears of higher inflation, and within two weeks most markets had fallen by 10%. After sharp swings in February and March, they ended the quarter close to their early- February lows.

The performance of the UK equity market continues to lag behind all overseas regions, while the 5% fall in the All-World Index made this the worst quarter for global equities since Q3 2015.

	Capital return (in £, %) to 31.3.18		
Weight %	Region	3 months	12 months
100.0	FTSE All-World Index	- 5.0	+ 0.4
54.0	FTSE All-World North America	-5.0	- 0.7
8.7	FTSE All-World Japan	-3.5	+ 5.3
12.9	FTSE All-World Asia Pacific ex Japan	-4.8	+ 2.9
15.8	FTSE All-World Europe (ex-UK)	- 4.9	+ 1.4
5.9	FTSE All-World UK	- 8.2	- 3.9
10.5	FTSE All-World Emerging Markets	- 2.5	+ 5.7

[Source: FTSE All-World Review, March 2018]

6. Technology was the most resilient sector during the quarter, and for the year, although it has recently been hit by the revelations of the disclosure of personal details of Facebook users.

	Capital return (in £, %) to 31.3.18		
Weight %	Industry Group	3 months	12 months
14.1	Technology	-1.0	+12.3
13.1	Industrials	-5.0	+2.7
4.6	Basic Materials	-7.8	+2.1
22.7	Financials	-4.9	+1.3
10.8	Consumer Services	-3.3	+0.7
100.0	FTSE All-World	-5.0	+0.4
10.2	Health Care	-4.9	-2.8
12.6	Consumer Goods	-6.8	-3.0
6.1	Oil & Gas	-7.8	-7.3
3.0	Utilities	-5.6	-8.2
2.8	Telecommunications	-9.4	-14.8

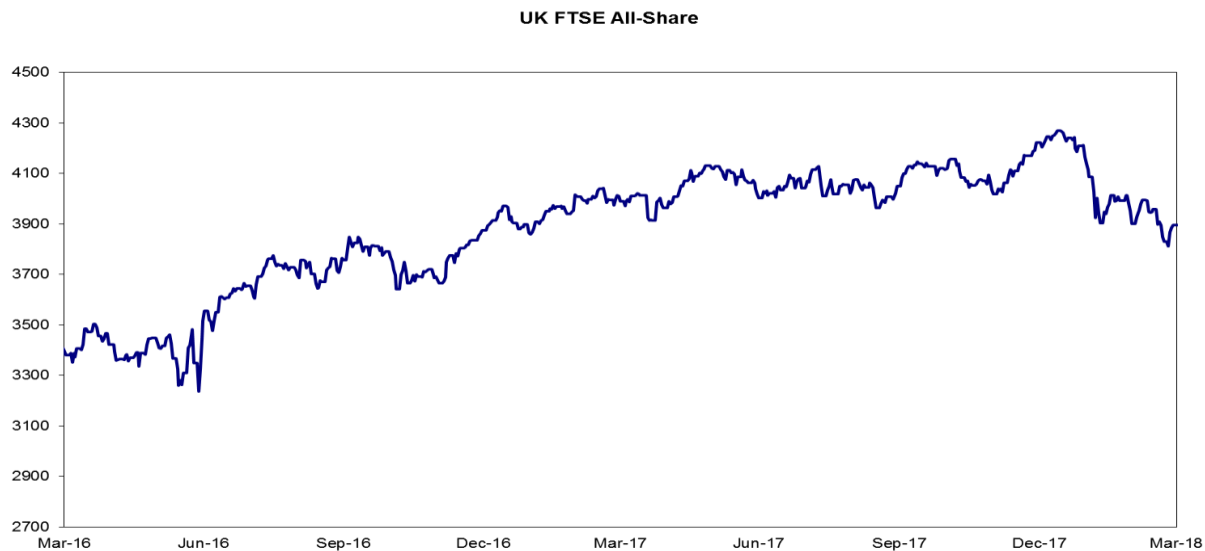
[Source: FTSE All-World Review, March 2018]

7. UK shares started the year on a weak note, because of sterling's strength and Brexit uncertainties, and fell further during the period of heightened volatility in February and March. The mid- and small-cap sections of the market again out-performed the large-caps.

(Capital only%, to 31.3.18)	3 months	12 months
FTSE 100	- 8.2	-2.8
FTSE 250	- 6.1	+2.6
FTSE Small Cap	-5.4	+3.0
FTSE All-Share	-7.8	-2.4

[Source: Financial Times]

The All-Share Index ended the quarter 9% below the high it had reached in December.



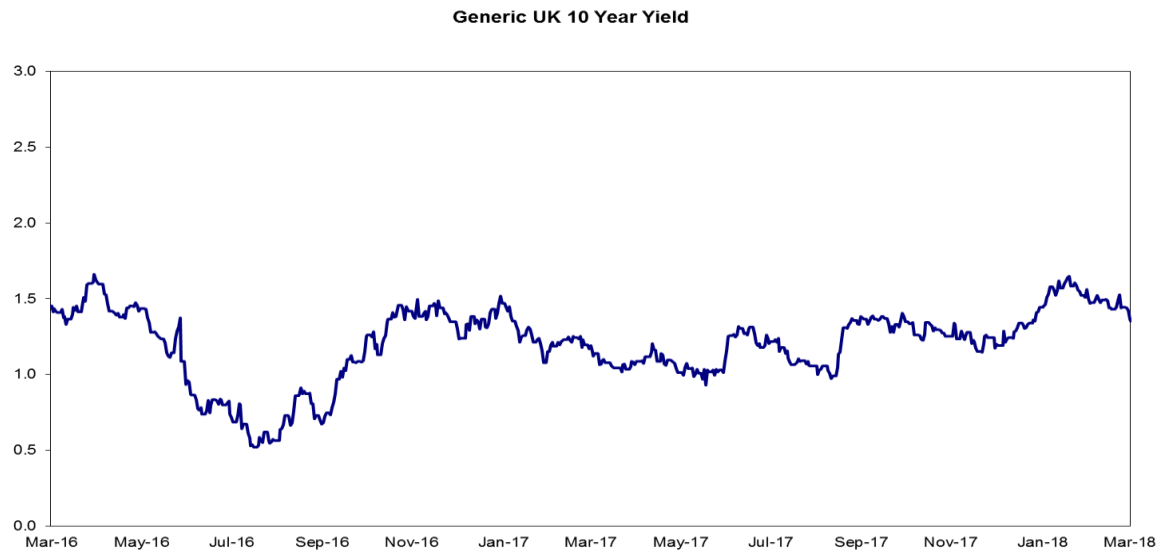
Bonds

8. The yield on US Treasuries rose again during the quarter, as economic data showed rising levels of wage growth and the Fed Funds rate was increased. Elsewhere there was little change in the main sovereign bond yields.

10-year government bond yields (%)					
	Dec '14	Dec 2015	Dec 2016	Dec 2017	Mar 2018
US	2.17	2.27	2.46	2.43	2.75
UK	1.76	1.96	1.24	1.23	1.35
Germany	0.54	0.63	0.11	0.43	0.50
Japan	0.33	0.27	0.04	0.05	0.04

[Source: Financial Times]

The 10-year Gilt yield remains below 1.5%

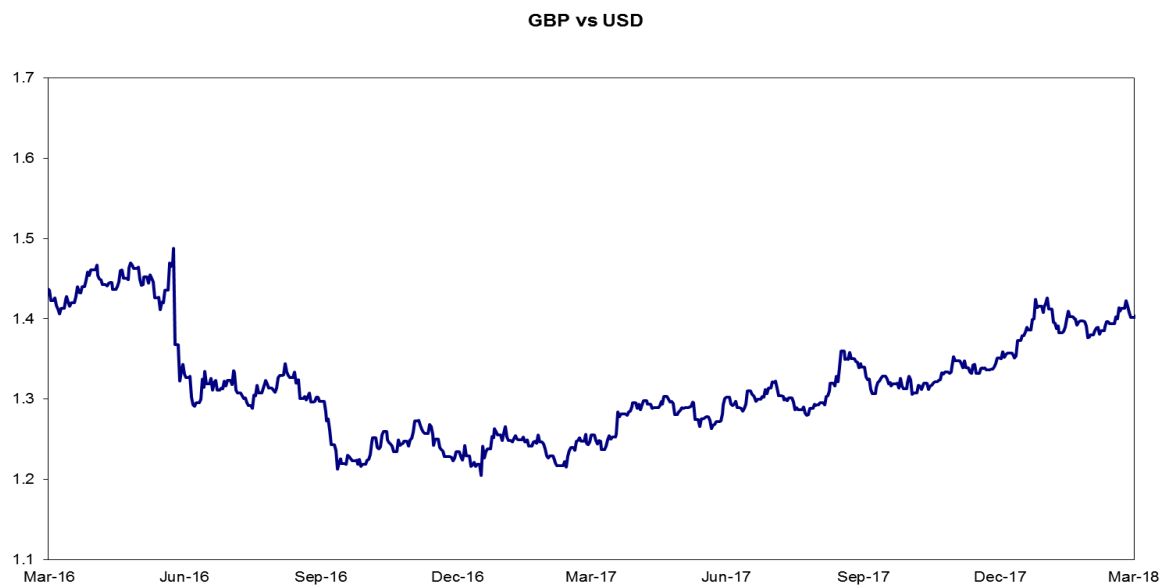


Currencies

9. Sterling strengthened against the dollar and, to a lesser, extent, the euro, but gave back some of its recent gains against the yen. The dollar's trade-weighted index against other currencies has fallen by 7.5% during the past year. Since the start of April, however, the pound has weakened to \$1.35, as a rise in UK interest rates became unlikely after the release of slowing Q1 GDP data for the UK.

				£ move (%)	
	31.3.17	31.12.17	31.3.18	3m	12m
\$ per £	1.251	1.353	1.403	+3.7	+12.2
€ per £	1.189	1.127	1.141	+1.2	-4.0
¥ per £	139.3	152.4	149.2	-2.1	+7.1

[Source: Financial Times]



Commodities

10. . The oil price edged higher during the quarter, and in April the price of Brent crude went over \$70 per barrel, its highest level since 2015. The price of Copper has continued rising, and has now gained 60% in the past two years. Metals prices surged higher in April after the US imposed sanctions on a number of Russian natural resource companies.



Property

11. In the quarter, the UK Commercial Property market was muted in the Office and Retail sectors, but Industrials continued to grow strongly, and have given a total return of over 20% in the past year.

	3-month (%)	12-month
All Property	+ 2.3	+11.3
Retail	+ 1.2	+ 7.1
Office	+ 1.9	+ 8.6
Industrial	+ 4.3	+21.6

[Source: MSCI UK Monthly Index of total returns, March 2018]

Outlook

12. The prospect of a trade war between the US and China has unsettled equity markets, although there is scope for negotiation before any tariffs come into force. Russia's relations with the West have also deteriorated, after the responses to the Salisbury poisoning and the chemical weapon attack in Syria. In the background, temporarily, are the future of the Iran Agreement and the consequences of the North-South Korea summit, so there are numerous issues which could further destabilise equity markets.
13. The yield on the 10-year US Treasury bond has edged up to 3% in April, partly on fears of rising inflation, and partly on consideration of the enlarged US fiscal deficit to be funded in the bond market without the assistance of the Federal Reserve.
14. The long-awaited return of volatility is expected to remain a feature of equity markets in the coming months, and the geo-political uncertainties are likely to weigh heavily on markets.

Peter Davies

Senior Adviser – MJ Hudson Investment Advisers*



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3.0 Quarter ending 31 March 2018 Performance

3.1 Table 1 summarises the change in the Council's asset allocation in Q4 of 2017/18 fiscal year.

Table 1: Asset allocation as at 31st March 2018 compared to the benchmark

ASSET CLASS	31/12/2017 Value (£m)	Net Investment Contribution / Distribution Value (£m)	Appreciation (£m)	31/03/2018 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	94.1		0.0	94.1	11.3	15.0	-3.7
Equities							
UK - L&G	116.4		-8.0	108.4	13.1		
UK Smaller Cos - Henderson	33.7	0.1	-2.1	31.6	3.8		
Overseas Developed - L&G	287.1		-12.8	274.3	33.0		
Equities - Total	437.1	0.1	-22.9	414.3	49.9	45.0	4.9
Diversified Growth Fund							
LCIV Baillie Gifford	79.1		-3.6	75.5	9.1		
LCIV Ruffer	50.1		-1.3	48.8	5.9		
Total London CIV	129.2	0.0	-4.9	124.3	15.0	21.0	-6.0
Property							
Europe - AVIVA	2.6	-1.5	0.9	2.1	0.2		
Property - Total	2.6	-1.5	0.9	2.1	0.2	0.0	0.2
Private Equity							
Capital Dynamics	70.3	-3.8	-2.0	64.5	7.8		
Yorkshire	0.5		0.0	0.5	0.1		
Private Equity Total	70.9	-3.8	-2.0	65.1	7.8	10.0	-2.2
Infrastructure							
Alinda	28.5	-1.4	-2.2	24.9	3.0		
Capital Dynamics	8.6	0.0	-0.2	8.4	1.0		
Infrastructure Total	37.1	-1.4	-2.4	33.3	4.0	8.0	-4.0
Cash Deposits							
Other/Northern Trust	84.0	9.8	3.2	97.0	11.7	1.0	10.7
Grand Total	855.0	3.2	-27.9	830.2	100.0	100.0	0.0

3.2 The total Fund value (including contributions) decreased by £24.8m in this quarter, compared to a £27.9m increase in the previous quarter. There was a consistent reduction in the value of the fund across all asset categories with the most significant in Equities which fell in value from £437.1m to £414.3m; a reduction of £22.8m.

3.3 There is a balance of £97.0m in cash deposits which is currently being invested in Money Market Funds and short term loans to other Local Authorities to generate as much interest as possible. This amount of cash is principally being held for the following reasons:

3.3.1 Cash is required to fund transfer values in relation to the College of North West London, as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This transfer was originally planned for January 2018 however this has been delayed by the LPFA to July 2018.

3.3.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments. (See table 5 in section 3.15).

3.4 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund as illustrated in the two tables below.

3.5 Table 2 sets out returns for the periods to 31 March 2018 compared to the previous quarter.

Table 2: Q4 Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 31/12/17			Qtr Ending 31/03/18			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
Fixed Income Henderson Total Return Bond Fund	0.8	1.0	-0.2	0.1	1.0	-0.9	Absolute Return 4% pa
Equities UK - Legal & General	5.0	5.0	0.0	-6.9	-6.9	0.0	FTSE All Share
UK - Small Companies Henderson	4.0	2.7	1.3	-6.2	-6.5	0.3	FTSE Small Cap
O'seas Developed - Legal & General	5.0	5.0	0.0	-4.5	-4.5	0.0	FTSE Dev World ex UK
European Property <i>Aviva Investors</i>	17.6	3.1	14.5	-21.7	1.9	-23.6	IPD All Properties Index
Private Equity Capital Dynamics	3.5	1.9	1.6	0.54	1.9	-1.4	Absolute Return 8% pa
Yorkshire Fund Managers	0	1.9	-1.9	0	1.94	-1.9	Absolute Return 8% pa
Infrastructure Alinda Capital Partners	-3.9	1.9	-5.8	-12.4	1.9	-14.3	Absolute Return 8% pa
Capital Dynamics	-0.8	1.9	-2.7	-2.65	1.94	-4.6	
Pooled Multi Asset Baillie Gifford	1.7	1.0	0.7	-4.5	1.0	-5.5	Base Rate + 3.5% pa
Ruffer	2.7	1.0	1.7	-2.6	1.0	-3.5	
Cash	0	0.1		0.1	0		Base Rate
Average Total	3.1	3.4	-0.3	-3.7	-1.9	-1.8	
Sum Total	35.5	26.4	9.2	-60.8	-5.2	-55.6	

3.6 Table 3 compares returns between 3 months, 1 year and 3 years for listed investments. Unlisted investments such as Infrastructure and Private Equity are not included as it is difficult to compare alternative investments in this manner.

Table 3: Long Term Returns from Listed Investments

Periods to 31.03.18		3 mnths - Mar18 (%)	1 year (%)	3 years (% p.a.)
Fixed Income	JH Total Return Bond	0.05	3.21	3.02
(4% p.a.)	Benchmark	0.99	4.00	4.17
	Relative Return	-0.94	-0.79	-1.15
Equities-UK	LGIM UK	-6.87	1.33	6.04
(FTSE All-Share)	Benchmark	-6.87	1.25	5.86
	Relative Return	0.00	0.08	0.18
	JH UK Small-Cos	-6.22	7.65	6.08
(FTSE Small Cap)	Benchmark	-6.48	2.21	9.02
	Relative Return	0.26	5.44	-2.94
Equities-Overseas	LGIM Global ex-UK	-4.45	2.44	11.29
(FTSE Dev World ex-UK)	Benchmark	-4.47	2.42	11.33
	Relative Return	0.02	0.02	-0.04
Multi-Asset	Baillie Gifford	-4.54	-0.55	2.80
(Base + 3.5%p.a.)	Benchmark	0.99	3.86	3.90
	Relative Return	-5.53	-4.41	-1.10
	Ruffer	-2.55	-1.12	0.00
(Base + 3.5%p.a.)	Benchmark	0.99	3.86	0.00
	Relative Return	-3.54	-4.98	0.00

3.7 Fixed Income

The Henderson Bond Fund appreciated by £0.1m in Q4, this re-presented lower than expected increase compared to the benchmark figures.

This fund experienced a generally weak quarter due to high volatility in the developed market government bond yields which saw a rise in January and a fall in February and March as volatility returned to markets.

Whilst there are concerns of low yields and a return of market volatility over the next quarterly cycles, the fund's strategy is to approach the credit markets more cautiously as credit market valuations remain elevated compared to past quarters.

3.8 Equities

The UK and Overseas Legal & General funds have seen a decrease in value of £20.8m, representing the worst performance since March 2016.

These are passive funds which track the overall market, so that the fall in value reflects the declines in the equity market indices during the quarter.

Henderson Small Cap saw a negative return of 6.2%. A significant factor was the collapse of one of its holdings in retail, which had represented 1.7% of the portfolio.

3.9 Property

The Fund's only remaining Property investment is its holding in AVIVA Europe Real Estate Fund of Funds, which is being liquidated by the managers, with the proceeds being returned to investors. This process should be completed by the end of 2018.

Accurate measurement of the performance of this fund is complicated by the 3-month delay in updating the official price of its units, which produces an apparent appreciation in value in a quarter when there has been a distribution of capital to investors. As this investment represented less than 1% of the overall Fund at March 2018, the consequent distortion to overall Fund performance is negligible.

3.10 Private Equity

Performance of Capital Dynamics investments are not analysed in this manner because they are private equity, as measuring performance against public market indices can be misleading.

The depreciation of £2.0m in this quarter is mainly linked to movements in exchange rates as there has been a drop in the value of Sterling compared to the Dollar as majority of this fund's investments are traded in Dollars.

It is worth noting that the Fund's holdings in these investments are very mature and approaching the end of the investment period; therefore, more cash is being distributed to investors as assets are sold. This explains the £3.8m distributed amount in the quarter.

3.11 Infrastructure

This quarter has seen a fifth consecutive drop in value with a depreciation of £2.4m. The depreciation in Q4 will have been largely attributable to the weakness of the dollar during the quarter. The fall in value has continued to reduce the overall asset allocation which currently sits at 3.9% compared to a target allocation of 8%.

There are two investments within this asset class namely Alinda II and Alinda III.

It is normal to expect good and bad investments in this portfolio as it is an unlisted fund. The poor performance from one of its main investments has had a significant negative impact on Alinda II, with a write off of £165m in Q4 and a decrease in fair value of 5.2%. On the other hand, Alinda III has seen a positive appreciation of 9% in Q4.

There is no major cause for concern at this stage as the fund is exiting Alinda II and trading has since increased over the last month. In addition to this Infrastructure investments are by their nature volatile in the short term and it is expected that over the long term the investment will perform better against the benchmark.

3.12 Diversified Growth Fund

The Baillie Gifford fund has realised continuous growth over the previous year; primarily due to continued positive performance in investment markets.

Members are advised to note that the actual performance for Baillie Gifford for Q4 presented positive returns however, according to the Northern Trust reports, Baillie Gifford has seen a decrease in value of £3.6m in this quarter compared to an appreciation of £1.3m in Q3 and 0.5m in Q2 of 2017. This discrepancy is mainly due to a timing difference between the production of the Northern Trust reports at year end and the final reports received from the London CIV on 19th April 2018. This represents a difference of £4m which has been reflected in the valuation reports for April 2018.

This point highlights the weakness in reporting at fixed periods of time, where within a two week period the value of the Baillie Gifford investment increased from £75m to £79m, which can distort the real annual return on investment. Therefore it is important to analyse investment returns over a longer period of time in order to properly evaluate performance, typically over 3 to 5 years.

Ruffer joined the fund in March 2017 and has depreciated in value in every quarter except the last quarter of 2017. The main reason for the poor performance of this fund has been linked to higher investments in equities which did not perform as predicted and poor bond yields. The fund managers have attempted to mitigate this by improving their options portfolio and stock selection however, the overall effect of this strategy was still negative. Officers are liaising with the London CIV to challenge the poor performance of this particular fund and will continue to closely monitor the fund in the future.

- 3.13 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The Fund has agreed a number of its own restrictions as part of the Investment Strategy Statement and are set out in the table below.

Table 4: Compliance with Investment limits

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 31 Mar 2018	Compliant Yes / No
Contributions invested in any single partnership	5%	3%	Yes
Contributions invested in partnerships	30%	12%	Yes
Cash deposits	10%	11%	No
Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%	11%	Yes
Total investment in illiquid assets	30%	4%	Yes

3.14 Cash deposits have breached the restriction limit. This is due to additional cash being held to transfer to the LPFA (as set out in section 3.5.1 above). Excluding this value, the exposure is well within acceptable levels.

3.15 The table below illustrates the Funds outstanding contractual commitments in Private Equity and Infrastructure investments.

Table 5: Outstanding contractual commitments on existing investments

	31 Dec 2017	31 Mar 2018
	£m	£m
Capital Dynamics	14.0	13.0
Alinda	17.2	16.5
Total	31.2	29.5

3.16 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

4.0 FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report.

5.0 DIVERSITY IMPLICATIONS

5.1 None.

6.0 STAFFING IMPLICATIONS

6.1 None.

7.0 LEGAL IMPLICATIONS

7.1 None.


8.0 BACKGROUND INFORMATION

8.1 Henderson Investors – March 2018 quarterly report
Legal & General – March 2018 quarterly report
Northern Trust Performance Report – March 2018
Websites: <https://www.ons.gov.uk>.

9.0 CONTACT OFFICERS

9.1 Folake Olufeko, Senior Finance Analyst, 020 8937 2491

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	Pensions Fund Sub-Committee 26 June 2018
	Report from the Chief Finance Officer
Brent Pension Fund: Draft Annual Report and Accounts 2017/18	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	1
Background Papers:	<ul style="list-style-type: none"> N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 This report presents the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018.

2.0 Recommendation

- 2.1 The Committee is recommended to note this report.

3.0 Detail

- 3.1 Attached as appendix one are the draft Pension Fund Annual Report and Accounts for the year ended 31 March 2018
- 3.2 The accounts have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) governing the preparation of the 2017/18 financial statements for Local Government Pension Scheme funds. The accounts (which are unaudited) aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018.

3.3 The main items to note are as follows:

- Against a backdrop of continued uncertainty in the global economy and increased volatility in the financial markets, the value of the Fund's investments increased from £802.6m to £830.3m.
- Total contributions received from employers and employees totalled £49.8m for the year, an increase on the previous year's £48.6m.
- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.9m, a decrease on the previous year's £40.2m.
- As in 2016/17, the Fund is in a positive cash-flow position because its contributions exceed its outgoings to members.
- During the year, College of North West London exited the Fund and BHP was brought back within the direct control of Brent Council, thus also ceasing to be an employer within the Fund. It is important to note that the net impact of these transactions on the funding position of the Pension Fund is nil. College of North West London will receive its share of both the net assets and the net liabilities of the Fund. BHP effectively remains within the Fund as a part of Brent Council. The impact of the BHP transfer on Brent Council can be seen in Notes 32-37 of the main accounts.

4.0 Financial Implications

4.1 Not applicable.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Conrad Hall

Chief Finance Officer

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Brent Pension Fund

Annual Report and Accounts 2017/18

Pensions Regulator Scheme Number: 10272080

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Chairman's Foreword

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2017/18.

The Fund has 6,247 contributors, 6,302 pensioners and 7,913 deferred pensioners.

The scheme is administered locally and is a valuable part of the pay and reward package for employees working in Brent Council or working for other employers in the Borough participating in the scheme.

During 2017/18, the value of the Pension Fund's investments has increased to £830.3m (2016/17 £802.6m). This is despite the weak performance of the equity markets in comparison to the previous year. Total contributions received from employers and employees were £49.8m for the year, an increase on the previous year's £48.6m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £38.9m, a decrease on the previous year's £40.2m. As in 2016/17, the Pension Fund is in a positive cash-flow position because its contributions exceed its outgoings to members. This means that the Pension Fund is able to invest some of the contributions from members in order to further increase the assets available to pay future benefits. This is in contrast to some Local Government Pension Scheme funds, who have to use some of their investments each year, reducing the assets on which they can make returns.

The Pension Fund had its most recent Triennial Review in 2016, which set the rates for 2017/18 through 2019/20. Inevitably, the Pension Fund Sub-Committee will review the investment managers' performance and its investment strategy in the light of this valuation, making changes as it deems appropriate. The next triennial valuation is scheduled for 2019.

In conclusion, I would like to extend my thanks and appreciation to all members of the Pension Fund Sub-Committee and officers for their continued input to the strong governance and management arrangements of the Fund.

Cllr Shafique Choudhary
Chairman, Brent Pension Fund Sub-Committee

Management Structure

Administering Authority:	Brent Council Civic Centre Engineers Way Wembley Middlesex HA9 0FJ
Brent Pension Fund Officers:	Ravinder Jassar, Head of Finance
Legal Advisers:	In-house
Custodian:	Northern Trust - 1st July 2015
Actuary:	Hymans Robertson
Independent Adviser:	Peter Davies, MJ Hudson Investment Advisers Limited
Fund Managers:	Legal & General Henderson Capital Dynamics Yorkshire Fund Managers London CIV LCIV – Baillie Gifford LCIV - Ruffer Aviva Alinda
Banker:	NatWest
Auditor:	KPMG
Performance Measurement:	Northern Trust
AVC Providers:	Prudential Clerical Medical Equitable Life (legacy only)

The Local Government Pension Scheme

The Government Pension Scheme (LGPS) is a statutory pension scheme.

This means that it is very secure as its benefits are defined and set out in law.

Under regulation 34 of The Local Government Pension Scheme (Administration) Regulations 2008 No. 239, all LGPS funds are required to publish an Annual Report.

This document is the Annual Report and Accounts of the Brent Pension Fund for 2017/18.

The LGPS in brief

- The LGPS is one of the largest public sector pension schemes in the UK, with 5.6 million members.
- It is a nationwide pension scheme for people working in local government or for other types of employer participating in the scheme.
- The LGPS is administered locally by 89 regional pension funds – one of which is the Brent Pension Fund.
- It is a funded scheme, which means that Fund income and assets are invested to meet future pension fund commitments.
- Benefits are defined and related to members' salaries, so they are not dependant on investment performance. Ultimately the local authority and local taxpayers are the final guarantors.
- The scheme is regulated by Parliament.

Governance

Governance Statement

The Brent Pension Fund publishes a Governance Statement each year. The latest version of this document is at page 52.

The Governance Statement reflects the Fund's commitment to transparency and engagement with employers and scheme members.

We monitor, review and consult where appropriate to ensure that our governance arrangements continue to be effective and relevant.

Administering Authority

Brent Council is the Administering Authority of the Brent Pension Fund and administers the LGPS on behalf of its participating employers.

- Brent Council has delegated its pensions functions to the Pension Fund Sub-Committee
- Brent Council has delegated responsibility for the administration and financial accounting of the Fund to the Chief Finance Officer
- This report supports Brent Council's Annual Governance Statement, which is published at page 52.

Governance Compliance

The Brent Pension Fund is fully compliant with the principles set out in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) Regulation 31.

The full compliance statement is at page 55.

Pension Fund Sub-Committee

The Pension Fund Sub-Committee is responsible for the strategic management of the assets of the Fund and the administration of benefits. The Pension Fund Sub-Committee meets quarterly to:

- ensure compliance with legislation and best practice
- determine policy for the investment, funding and administration of the Fund
- monitor performance across all aspects of the service

- consider issues arising and make decisions to secure efficient and effective performance and service delivery
- appoint and monitor advisers
- ensure that arrangements are in place for consultation with stakeholders as necessary.

Pension Fund Sub-Committee Membership as at 31 March 2018

Chair: Cllr S Choudhary

Other Members: Cllr A Aden
Cllr A Choudry
Cllr M Daly
Cllr J Davidson
Cllr K Perrin
Cllr A Shahzad

Employee representatives: Francesca Hammond (UNISON)
Stephen Holley (College of North West London)

Other attendees: Conrad Hall, Chief Finance Officer
Ravinder Jassar, Head of Finance
Peter Davies, Independent Financial Adviser

Pension Fund Sub-Committee Training

Training is business driven, therefore the programme is flexible. This allows us to effectively align training with operational needs and current agenda items, helping to support Member decision making.

Member training is supplemented by attendance at investment conferences and other associated events.

Conflict of Interests

There is a standing agenda item at each Pension Fund Sub-Committee meeting for Members to declare any personal or prejudicial interests.

Accountability and Transparency

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at www.brent.gov.uk.

Pension Fund Sub-Committee meetings are open to members of the public.

Scheme Administration

The Brent Pensions Team

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

The Pensions Team is accountable to the Pension Fund Sub-Committee, participating employers and scheme members. The team are fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to delivering excellent customer care.

The team's responsibilities include the following:

- ensuring the accuracy of pensions records, including the preparation and distribution of the Annual Benefit Statements to all scheme members
- the timely collection of contributions
- advice and guidance to scheme members
- advice and guidance to employers
- early retirement schemes for Fund employers.

Operational costs

The Fund's operational costs are monitored throughout the year by the Fund's management team and reported in the Pension Fund Annual Accounts.

Communications

The Brent Pension Fund is committed to delivering a consistently high level of performance and customer service. Excellent communication is core to this commitment.

In all our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information
- carefully listen, consider and respond to communications we receive
- use plain English where possible and avoid unnecessary jargon
- use the communication method that best suits the audience and the information being passed on.

The Council's Communication Policy Statement can be found at page 58.

The Statement sets out who our main customers and contacts are, detailing how and when we communicate with them. We continually review and monitor our communications and the Statement is formally reviewed and endorsed each year by the Pension Fund Sub-Committee.

Actuarial Position

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary. The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2016.

The purpose of this is to establish that the Brent Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of accrued liabilities.

In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable employer contributions to be kept as stable as possible and at reasonable cost; and
- maximise the returns from investments within reasonable risk parameters.

The most recent valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £676m, were sufficient to meet 55% of the £1,238m liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £562m.

During 2017/18, the most commonly applied employer contribution rate within the Brent Pension Fund was 32.5% of pensionable pay and this will increase to 33.8% in 2018/19. Other employers have different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

Investment Review 2017/18

Economic Background

In 2017 economic growth accelerated by 0.7% from 2016 levels in the US, Eurozone and Japan, while China maintained a growth rate of 6.7%. In the UK, however, growth slowed from 2.0% to 1.6%, with a similar rate being forecast for 2018. The price of Brent Crude oil rose from \$54 to \$69 during the year, stimulated by production curbs imposed by OPEC and Russia, as well as by stronger economic activity globally.

The period of special monetary measures embarked on by the world's central banks after the Financial Crisis of 2007/08 is beginning to wind down. The US Federal Reserve made two more ¼% rate rises during the year, and announced that it would start to reduce its balance sheet by not re-investing the proceeds of maturing bonds. The Bank of England, meanwhile, raised the UK interest rate by ¼% in November, and the European Central Bank halved its monthly purchases of bonds to €30bn from January 2018. The Bank of Japan continues with its programme of bond-buying, targeting a zero-yield on medium-term government bonds.

In June, the snap UK election called by the Prime Minister resulted in a loss of the Conservatives' overall majority, and they entered into a pact with the DUP to ensure they still had a working majority in Parliament. Negotiations on the terms of Britain's exit from the EU are continuing, amid disagreements within the Conservative party about many of the detailed arrangements. In France Emmanuel Macron was elected President at the head of a new centrist party, while several months after the German elections the CDU/CSU renewed its coalition with the SPD, allowing Angela Merkel to remain as Chancellor. The Italian elections in March have produced an uncertain outcome after the big gains registered by the Five Star Movement.

The United States Congress approved the Tax Bill in December, sharply cutting the Corporation Tax rate and also reducing the top rate of Income Tax. President Trump announced the imposition of tariffs on imports of steel and aluminium from certain countries, and has threatened to put tariffs on a range of Chinese goods, to which China has responded with its own list of items to be penalised if the US tariffs come into force. Russia has been the subject of diplomatic responses and further sanctions from the West following the alleged poisoning of two Russians in England.

Market Returns

Equity markets moved within a narrow range during the year, and the strength shown from October – January was swiftly cancelled out by sharp falls in early February when investors became concerned about a possible rise in inflation in the US. After the exceptionally strong preceding year, Global Equities gave a total return of just 2.9% (in

£) in the year to March 2018. Within this figure, Emerging Markets (+8.7%), Japan (+7.5%) and Asia Pacific ex-Japan (+6.0%) were the strongest regions, while North America (+1.3%) and UK (-0.1%) were laggards.

[Source of equity market returns: FTSE All-World Total Return series (£)]

In the year to March 2018, the pound gained 12% against a generally weak dollar, and 7% against the yen, but lost 4% against the euro. The yield on US Treasury bonds rose from 2.4% to 2.75% during the year, in response to the rate increases by the Federal Reserve and signs of rising inflation, while yields on UK and German government bonds were little changed for the year as a whole. Index-Linked Gilts were also flat, gaining just 0.7% during the year.

[Source: FTSE-A Index Linked (over 5 years), total return]

UK Commercial Property recorded a solid total of 11.3%, comprising a return of 21.6% from Industrial Property, 8.6% from Offices and 7.1% from Retail.

[Source: IPD Monthly Index of Total Returns]

Outlook

The steady upward trend of equity markets since March 2016 appears to have come to an end with the resurgence of volatility in February and March 2018. The return of interest rates to more normal levels, and the gradual withdrawal of quantitative easing by central banks, are likely to limit the scope for further growth in asset prices in the coming year. In addition, bond markets are having to adjust to the signs of rising US inflation. The geopolitical backdrop remains as uncertain as ever, with Russia's relations with the West, and the consequences of the Syrian conflict, now being supplemented by a possible trade war as clouds on the horizon.

Peter Davies

Senior Adviser – MJ Hudson Investment Advisers

May 2018

Investment Policy and Performance

Fund Performance Review for the year 2017/18

Introduction

The Administering Authority invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2017/18, the following external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Henderson (fixed income and UK smaller companies equities)
- Capital Dynamics (private equity)
- Yorkshire Fund Managers (private equity)
- London CIV
- LCIV Baillie Gifford (diversified growth fund)
- LCIV Ruffer (diversified growth fund)
- Aviva (property)
- Alinda (infrastructure)

The cash balance is deposited with money market funds and through short term lending to local authorities.

Funding Strategy Statement (FSS)

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found at page 58.

Investment Strategy Statement (ISS)

The Investment Strategy Statement sets out the policy which determines how the Fund invests its assets. This can be found on page 100 of this document. The Scheme rules require that we publish the ISS that covers our policy on:

- the types of investment to be held
- the balance between different types of investments

- attitude to risk and approach to its management
- the expected return on investments
- the extent to which social, environmental or ethical considerations are taken into account.

Brent Pension Fund Account

Pension Fund Accounts as at 31 March 2018

2016/17 £m		Notes	2017/18 £m
	Dealings with members, employers and others directly involved in the fund		
(48.6)	Contributions	7	(49.9)
(2.4)	Transfers in from other pension funds	8	(3.6)
(51.0)			(53.5)
40.2	Benefits	9	38.9
4.5	Payments to and on account of leavers - Individual transfers and refunds	10	5.2
44.7			44.1
(6.3)	Net (additions)/withdrawals from dealings with members excluding exceptional items		(9.4)
0.0	Payments to and on account of leavers - Group transfers	10	30.9
(6.3)	Net (additions)/withdrawals from dealings with members		21.5
3.8	Management expenses	11	4.3
(2.5)	Net (additions)/withdrawals including management expenses		25.8
	Returns on investments		
(4.7)	Investment income	12	(1.2)
0.7	Taxes on income	13	0.3
(121.2)	(Profits) and losses on disposal of investments and changes in the market value of investments	14	(21.4)
(125.2)	Net return on investments		(22.3)
(127.7)	Net (increase)/decrease in the net assets available for benefits during the year		3.5
(675.9)	Opening net assets of the scheme		(803.6)
(803.6)	Closing net assets of the scheme		(800.1)

Net Assets Statement

31 March 2017 £m		Notes	31 March 2018 £m
802.6	Investment assets	14	830.3
802.6			830.3
2.5	Current assets	20	1.4
0.0	Non-current assets	20	0.0
(1.5)	Current liabilities	21	(31.6)
803.6	Net assets of the fund available to fund benefits at the period end		800.1

College of North West London exited the Fund on 1st August 2017. At 31st March 2018, the College's share of the Fund's net assets at that date had not been transferred (see Note 21). £30.9m of Current Liabilities on the Net Assets Statement and 'Payments to and on account of leavers - Group transfers' on the Fund Account relates to this transfer of assets.

Notes to the Brent Pension Fund accounts

1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Brent Council.

The following description of the Fund is a summary only.

a) General

The Fund is a contributory defined benefit pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Brent Pension Fund include:

Scheduled bodies whose staff are automatically entitled to be members of the Fund

Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There were 35 employer organisations with active members within the Brent Pension Fund at 31 March 2018, listed below:

Scheduled bodies

London Borough of Brent
Alperton High School
ARK Academy
ARK Franklin Academy
ARK Elvin Academy
Capital City Academy
Claremont High School
Convent of Jesus & Mary Language College
Crest Academy
Furness Primary School
Gladstone Park School
Islamia Primary School
Kingsbury High School
Manor School
Michaela Community School
North West London Jewish day School
Oakington Manor School

Preston Manor High School
 Queens Park Community School
 St Andrews and St Francis School
 St Gregory's RC High School
 Sudbury Primary School
 Wembley High Technology College
 Woodfield School

Admitted bodies

Capita Business Services Limited
 Conway Aecom
 Apleona HSG Limited (previously Bilfinger originally Europa Facility (Services Limited)
 National Autistic Society
 Local Employment Access Project (LEAP)
 Sudbury Neighbourhood Centre
 Wetton Cleaning Services
 Veolia
 Xerox (UK) Limited
 Barnardos
 Taylor Shaw

31 March 2017	Brent Pension Fund	31 March 2018
40	Number of employers with active members	35
	Number of employees in scheme	
4,454	Brent Council	4,412
2,130	Other employers	1,835
6,584	Total	6,247
	Number of pensioners	
5,524	Brent Council	5,666
867	Other employers	636
6,391	Total	6,302
	Deferred pensioners	
6,646	Brent Council	6,923
1,260	Other employers	990
7,906	Total	7,913

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such

valuation was at 31 March 2016. During 2017/18, the most commonly applied employer contribution rate within the Brent Pension Fund was 32.5% of pensionable pay.

d) Benefits

Since April 2014, the scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate 1/49th. Accrued pension is updated annually in line with the Consumer Price index.

For a summary of the Scheme before April 2014 and details of a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits please refer to the LGPS website: www.lgpsmember.org

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private

equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

n) Additional voluntary contributions

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4. Critical judgements in applying accounting policies

Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2018 was £98m (£129m at 31 March 2017).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £158m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £17m, and a one-year increase in assumed life expectancy would increase the liability by approximately £67m.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity/infrastructure	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £98m. There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the Balance Sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions receivable

By category

	2016/17	2017/18
	£m	£m
Employees' contributions	8.3	8.1
Employers' contributions:		
Normal contributions	37.2	38.9
Deficit recovery contributions	1.7	1.7
Augmentation contributions	1.4	1.2
Total employers' contributions	40.3	41.7
Total	48.6	49.9

By authority

	2016/17	2017/18
	£m	£m
Administering Authority	36.3	39.0
Scheduled bodies	9.9	8.9
Admitted bodies	2.4	2.0
Total	48.6	49.9

8. Transfers in from other pension funds

	2016/17	2017/18
	£m	£m
Individual transfers	2.4	3.6
Total	2.4	3.6

9. Benefits payable

By category

	2016/17	2017/18
	£m	£m
Pensions	33.0	34.4
Commutation and lump sum retirement benefits	7.0	4.2
Lump sum death benefits	0.2	0.3
Total	40.2	38.9

By authority

	2016/17	2017/18
	£m	£m
Administering Authority and Scheduled bodies	38.7	37.5
Admitted bodies	1.5	1.4
Total	40.2	38.9

10. Payments to and on account of leavers

	2016/17	2017/18
	£m	£m
Individual transfers	4.2	5.0
Refunds to members leaving service	0.3	0.2
Group transfers	0	30.9
Total	4.5	36.1

College of North West London left the Fund on 1st August 2017. Group transfers relates to the college's share of the Fund's net assets at that date. At 31st March 2018, this transfer had not taken place (see Note 21).

11. Management Expenses

	2016/17	2017/18
	£m	£m
Administration costs	0.7	0.7
Investment management expenses	3.0	3.5
Oversight and Governance costs	0.1	0.1
Total	3.8	4.3

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments. Audit fees were £21k (21k 2016/17)

a) Investment management expenses

	2016/17	2017/18
	£m	£m
Management Fees	2.8	3.4
Custody Fees	0.1	0.1
Transaction costs	0.1	0.0
Total	3.0	3.5

Management Fees are charged periodically as a percentage of the value of the assets invested in each fund. In 2016/17, the value of the Fund's total investments increased by more than £100m (Note 14). While the value of the investments has decreased during 2017/18, the value remains above the average for the previous year. Therefore, the fees have increased in line with this.

12. Investment income

	2016/17	2017/18
	£m	£m
Dividend income private equities/infrastructure	1.2	0.4
Income from Pooled property investments	3.4	0.3
Income from private equities/infrastructure	0.2	0.3
Interest on cash deposits	(0.1)	0.2
Total	4.7	1.2

13. Taxes on income

	2016/17	2017/18
	£m	£m
Withholding tax	0.7	0.3
Total	0.7	0.3

14. Investments

	Market value 31 March 2017 £m	Market value 31 March 2018 £m
Investment assets		
Pooled investments	620.3	632.9
Pooled property investments	3.6	2.1
Private equity/infrastructure	130.3	98.3
Total investments	754.2	733.3

a) Investments 17/18

	Market value 1 April 2017 £m	Purchases during the year £m	Sales during the year £m	Change in market value during the year £m	Market value 31 March 2018 £m
Pooled investments	620.3	0.0	(1.1)	13.7	632.9
Pooled property investments	3.6	0.0	(0.9)	(0.6)	2.1
Private equity/infrastructure	130.3	4.2	(44.5)	8.3	98.3
	754.2	4.2	(46.5)	21.4	733.3
Other Investment balances:					
Cash Deposit	47.5				97.0
Investment Income due	0.9				0.0
Net investment assets	802.6				830.3

Investments 16/17

	Market value 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2017
	£m	£m	£m	£m	£m
Pooled investments	469.4	50.0	(0.7)	101.6	620.3
Pooled property investments	39.3	0	(33.5)	(2.2)	3.6
Private equity/infrastructure	129.4	9.5	(31.2)	21.8	130.3
	638.1	59.5	(65.4)	121.2	754.2
Other Investment balances:					
Cash Deposit	36.2				47.5
Investment Income due	0				0.9
Net investment assets	674.3				802.6

b) Analysis of investments by category

	31 March 2017 £m	31 March 2018 £m
Pooled funds – additional analysis		
UK		
Fixed income unit trust	91.3	94.2
Unit trusts	136.1	140.1
Diversified growth funds	125.3	124.3
Overseas		
Unit trusts	267.6	274.3
Total Pooled funds	620.3	632.9
Pooled property investments	3.6	2.1
Private equity/infrastructure	130.3	98.3
Total investments	754.2	733.3

c) Investments analysed by fund manager

Market value				
31 March 2017			31 March 2018	
£m	%		£m	%
374.4	49.6	Legal & General	382.7	52.2
0.2	0.0	London CIV	0.2	0.0
120.4	16.0	Henderson	125.7	17.1
91.7	12.2	Capital Dynamics	72.9	9.9
0.6	0.1	Yorkshire Fund Managers	0.5	0.1
75.9	10.1	LCIV - Baillie Gifford	75.5	10.3
49.4	6.5	LCIV - Ruffer	48.8	6.7
3.6	0.5	Aviva	2.1	0.3
38.0	5.0	Alinda	24.9	3.4
754.2	100.0		733.3	100.0

All the above companies are registered in the United Kingdom.

d) Stock lending

The Brent Pension Fund does not operate a Stock Lending programme.

15. Valuation of financial instruments carried at fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant

effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and fund of hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Financial assets at fair value through profit and loss		635.0	98.3	733.3
Loans and receivables	97.0			97.0
Total financial assets	97.0	635.0	98.3	830.3
Financial liabilities				
Financial liabilities at amortised cost	(31.6)			(31.6)
Total financial liabilities	(31.6)	0	0	(31.6)
Net financial assets	65.4	635.0	98.3	798.7

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Financial assets at fair value through profit and loss		623.9	130.3	754.2
Loans and receivables	48.4			48.4
Total financial assets	48.4	623.9	130.3	802.6
Financial liabilities				
Financial liabilities at amortised cost	(1.5)			(1.5)
Total financial liabilities	(1.5)	0	0	(1.5)
Net financial assets	46.9	623.9	130.3	801.1

16. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2017			31 March 2018		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£m	£m	£m	£m	£m	£m
Financial assets					
620.3			632.9		
3.6			2.1		
130.3			98.3		
	47.5			97.0	
	0.9			0.0	
754.2	48.4	0.0	733.3	97.0	0.0
Financial Liabilities					
		(1.5)			(31.6)
754.2	48.4	(1.5)	733.3	97.0	(31.6)
Totals					

a) Net gains and losses on financial instruments

31 March 2017		31 March 2018
£m		£m
	Financial assets	
121.2	Fair value through profit and loss	21.4
121.2	Total	21.4

b) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2017			31 March 2018	
Carrying value	Fair value		Carrying value	Fair value
£m	£m		£m	£m
		Financial assets		
754.2	754.2	Fair value through profit & loss	733.3	733.3
48.4	48.4	Loans and receivables	97.0	97.0
802.6	802.6	Total financial assets	830.3	830.3
		Financial liabilities		
(1.5)	(1.5)	Financial liabilities at amortised cost	(31.6)	(31.6)
(1.5)	(1.5)	Total financial liabilities	(31.6)	(31.6)

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2017	31 March 2018
	£m	£m
Cash balances	47.4	97.0
UK Fixed income unit trust	91.3	94.2
Total	138.7	191.2

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash balances	97.0	9.7	(9.7)
UK Fixed income unit trust	94.2	9.4	(9.4)
Total change in assets available	191.2	19.1	(19.1)

Asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash balances	47.4	4.7	(4.7)
UK Fixed income unit trust	91.3	9.1	(9.1)
Total change in assets available	138.7	13.9	(13.9)

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency

fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency risk exposure – asset type	Asset value at 31 March 2017	Asset value at 31 March 2018
	£m	£m
Overseas unit trusts	267.6	274.3
Overseas pooled property investments	3.6	2.1
Overseas private equity/infrastructure	130.3	98.3
Total overseas assets	401.5	374.7

A 1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2018	Change to net assets available to pay benefits	
	£m	+1% £m	-1% £m
Overseas unit trusts	274.3	2.7	(2.7)
Overseas pooled property investments	2.1	0.0	(0.0)
Overseas private equity/infrastructure	98.3	1.0	(1.0)
Total change in assets available	374.7	3.7	(3.7)

	Asset value as at 31 March 2017	Change to net assets available to pay benefits	
	£m	+1% £m	-1% £m
Overseas unit trusts	267.6	2.7	(2.7)
Overseas pooled property investments	3.6	0.0	(0.0)
Overseas private equity/infrastructure	130.3	1.3	(1.3)
Total change in assets available	401.5	4.0	(4.0)

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's

financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £97.0m (31 March 2017: £47.5m). This was held with the following institutions:

	Rating	Balances as at 31 March 2017 £m	Balances as at 31 March 2018 £m
Bank deposit accounts			
NatWest	BBB+	4.4	1.5
Northern Trust		5.4	6.6
Money Market deposits	A+	37.7	48.9
Other short-term lending			
Local authorities		0	40.0
Total		47.5	97.0

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2018 the value of illiquid assets was £100.4m, which represented 12% (31 March 2017: £133.9m, which represented 18%) of the total fund assets.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

d) Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2016 (22 years from 1 April 2013) and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the Fund was assessed as 55% funded (56% at the March 2013 valuation). This corresponded to a deficit of £562m (2013 valuation: £442m) at that time.

Contribution increases were phased in over the three-year period beginning 31 March 2017 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

Year	Employers' contribution rate
2017/18	32.5%
2018/19	33.8%
2019/20	35.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution

rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

The main actuarial assumptions used for the March 2016 actuarial valuation were as follows:

Discount rate	3.8% p.a.
Pay increases	2.4% p.a.
Pension increases	2.1% p.a.

Mortality assumptions

Future life expectancy based on the Actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	22.3 years	24.5 years

Commutation assumption

It is assumed that 50% of future retirements will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

19. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2018 was £1,680m (31 March 2017: £1,635m). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Inflation/pensions increase rate	2.4%
Salary increase rate	2.7%
Discount rate	2.6%

Longevity assumption

The average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.3 years	24.5 years
Future pensioners*	24.1 years	26.4 years

* Future pensioners are assumed to be currently aged 45

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	133
0.5% p.a. increase in the Salary Increase Rate	1%	17
0.5% p.a. decrease in the discount rate	9%	158
1 year increase in life expectancy	4%	67

20. Assets

a) Current assets

	31 March 2017 £m	31 March 2018 £m
Debtors:		
- Contributions due – employees	0.4	0.2
- Contributions due – employers	1.8	1.0
- Sundry debtors	0.3	0.2
- Additional voluntary contributions	0.0	0.0
Total	2.5	1.4

Analysis of debtors

	31 March 2017	31 March 2018
	£m	£m
Central government bodies	0.0	0.0
Other local authorities	2.5	1.4
Other entities and individuals	0.0	0.0
Total	2.5	1.4

b) Non-current assets

	31 March 2017	31 March 2018
	£m	£m
Non- current assets	0.0	0.0
Total	0.0	0.0

Non- current assets comprises of contributions due from employers, repayable later than a year from the Balance Sheet date.

21. Current liabilities

	31 March 2017	31 March 2018
	£m	£m
Payments to and on account of leavers -	0.0	30.9
Group transfers		
Sundry creditors	1.5	0.7
Total	1.5	31.6

Analysis of creditors

	31 March 2017	31 March 2018
	£m	£m
College of North West London	0.0	30.9
Central government bodies	0.1	0.0
Other entities and individuals	1.4	0.7
Total	1.5	31.6

22. Additional voluntary contributions

	Market value 31 March 2017	Market value 31 March 2018
	£m	£m
Clerical Medical	1.2	1.2
Equitable Life	0.2	0.2
Prudential	0.1	0.1
Total	1.5	1.5

The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

23. Related party transactions

Brent Council

The Brent Pension Fund is administered by Brent Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.680m (2016/17: £0.673m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £30.7m to the Fund in 2017/18 (2016/17: £29.4m). All monies owing to and due from the Fund were paid in year.

Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund.

Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

Key management personnel

Paragraph 3.9.4.4 of the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (the Code) exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Brent Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England)

Regulations can be found in the main accounts of Brent Council.

24. *Contingent liabilities*

The Fund had no contingent liabilities at 31 March 2018.

25. *Contingent Assets*

Outstanding capital commitments (investments) at 31 March 2018 totalled £29.5m (31 March 2017: £40.9m).

	31 March 2017	31 March 2018
	£m	£m
Capital Dynamics	20.0	13.0
Alinda Fund I	3.6	2.9
Alinda Fund II	17.3	13.6
Total	40.9	29.5

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Other Contingent assets

Seven non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31 March 2017	31 March 2018
	£'000	£'000
Apleona HSG Ltd (previously Bilfinger and E)	136	136
Capita Business Services Limited	123	123
Conway Aecom	111	111
Xerox (UK) Limited	29	29
Sanctuary	8	0
ThamesReach	5	0
Total	412	399

Sanctuary and ThamesReach ceased to be employers within the Fund during the year.

26. *Impairment Losses*

The Fund had no contingent liabilities at 31 March 2018.

Statement of Responsibilities

The Fund's responsibilities

The Fund is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. At Brent Council, the Chief Finance Officer fulfils that responsibility.
- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets
- approve the Brent Pension Fund's statement of accounts.

Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for preparing the Brent Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2017/18 ('the Code of Practice').

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records, which are up to date
- taken reasonable steps to prevent fraud and other irregularities.

Chief Finance Officer's statement

I certify that the statement of accounts as set out on pages 16 to 46 presents a true and fair view of the financial position of the Brent Pension Fund as at the accounting date and its income and expenditure for the year ended 31 March 2018.

Conrad Hall CPFA
Chief Finance Officer

Independent Auditor's Report
Blank

Appendices

Annual Governance Statement

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require the Fund to maintain a Governance Policy Statement.

The Council, as Administering Authority for the Brent Pension Fund, has delegated responsibility for managing the Fund's investments to its Pension Fund Sub-Committee.

The Pension Fund Sub-Committee oversees the proper administration and management of the Pension Fund. It is responsible for:

- undertaking statutory functions on behalf of the Local Government Pension Scheme and ensuring compliance with legislation and best practice
- determining policy for the investment, funding and administration of the Pension Fund
- considering issues arising and making decisions to secure efficient and effective performance and service delivery
- appointing and monitoring all relevant external service providers:
 - fund managers
 - advisers
 - custodian
 - actuary
 - all other professional services associated with the structure and functions of the Pension Fund
- monitoring performance across all aspects of the service
- ensuring that arrangements are in place for consultation with stakeholders as necessary
- considering the annual statement of Pension Fund accounts
- considering and approving the Pension Fund actuarial valuation.

The Pension Fund Sub-Committee normally meets four times each year. These meetings are used mainly for discussions with the Fund's investment managers, using reports on their strategies and performance prepared by the Chief Finance Officer, any views of the independent adviser, and presentations prepared by the managers themselves. The Pension Fund Sub-Committee will also consider reports from the Chief Finance Officer, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the Statement of Investment Principles, training, and proposals for scheme change.

The Pension Fund Sub-Committee is constituted to reflect the views of:

- the Council as Administering Authority and the largest employer with 74% of the contributing membership
- other employers with 26% of the membership, and
- the Fund's contributors.

The Pension Fund Sub-Committee consists of:

- seven Brent councillors
- a representative of other employers
- a representative of the Fund's contributors.

There is also an independent adviser who attends all Pension Fund Sub-Committee meetings.

Training

Members of the Pension Fund Sub-Committee and Brent officers have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending is charged to the Pension Fund.

Use of advisers

The Chief Finance Officer advises the Pension Fund Sub-Committee on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Pension Fund Sub-Committee on investment matters.

The Pension Fund Sub-Committee uses the Fund's actuary, Hymans Robertson, and other consultants as necessary, for advice on matters when in-house expertise is not available. The Pension Fund Sub-Committee takes advice from the actuary, the fund managers or specialist consultants or advisers as required on asset allocation, selecting managers, and investment performance targets.

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for the Fund's employers. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

Governance Compliance Statement

This statement shows how Brent Council as the Administering Authority of the Brent Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Administration) Regulations 2008.

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Brent Council's constitution sets out the terms of reference for the Pension Fund Sub-Committee.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
B	Representation	
a.	<p>That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admission bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (ad-hoc basis only). 	<p>Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.</p> <p>The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.</p>

Ref.	Principles	Compliance and comments
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Sub-Committee have full voting rights, but the Sub-Committee works by consensus without votes being required.
E	Training/facility time/expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Sub-Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Sub-Committee and training logs are maintained for all such training undertaken.
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance. The Pension Fund Sub-Committee meets at least four times a year on a quarterly basis to fit its business needs.

Ref.	Principles	Compliance and comments
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Sub-Committee includes lay members. Road shows are arranged for employers.
G	Access	
a.	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Sub-Committee deals with fund administration issues as well as fund investment.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- Employing authorities
- The Fund's contractor for pension administration services, Capita Employee Benefits
- Brent Pensions Team staff
- Other bodies, for example prospective employing authorities.

We are committed to communicating clearly and effectively and we provide a high-quality service to all our stakeholders.

Our communication with scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the scheme and their own benefits.

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation. We intend to develop the website as the prime source of information on the pension scheme. This should ensure timely, up-to-date and easy-to-access information for all our stakeholders.

The *Employee's Guide* is the main reference point for current scheme members. Each new employee gets a copy from their employer. We update it regularly, usually annually when regulations are changed. It is available from our website. Other scheme literature is available from employers or direct from us.

We have a general query call centre which operates during office hours. A voice-mail service takes messages out of hours, and we return these calls the next working day. We also have a general email address for all queries.

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. These are usually issued between May and September each year.

We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. A payslip is also sent to pensioners if there has been a change of more than £3 in their monthly payment.

An annual newsletter is sent to pensioners each March.

The Brent Pension Fund's annual report and full accounts are available to members via our website.

Our communication with employing authorities

We communicate with employing authorities in several ways to help them meet their responsibilities as scheme employers.

We give the *Employer Manual* to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from ourselves.

A copy of the Brent Pension Fund annual report and accounts is made available to each employer via the website. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Pension Fund Sub-Committee approving any significant amendment.

We send the full actuarial report on the triennial valuation to employers when they are available.

Our communication with Capita Employee Benefits

It is vital that regular communication takes place with Capita Employee Benefits, to ensure that the Fund's contractor for pension administration services delivers to the requisite quality and cost.

Our communication with Brent Pensions Team staff

It is essential that our staff are kept up to date with all changes to the scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Our communication with other bodies

We provide information to members' representatives on request.

The Pension Fund Sub-Committee receives reports from the Chief Finance Officer. Although these usually concern investment issues, they will advise the Sub-Committee on changes to administrative arrangements or scheme rules where relevant.

Any prospective employing authority will receive a letter outlining the costs of joining the scheme and a copy of the *Employer Manual*.

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Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Brent Pension Fund (“the Fund”), which is administered by the London Borough of Brent, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1st April 2017.

1.2 What is the London Borough of Brent Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Brent Fund, in effect the LGPS for the Brent area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member of the London Borough of Brent: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Ravinder Jassar [Head of Finance] in the first instance at e-mail address ravinder.jassar@brent.gov.uk or on telephone number 020 8937 1487.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers – some employers are able to participate in the LGPS via a resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

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2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Academies	Other	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	15 years	Future working lifetime of actives	Outstanding contract term
Secondary rate – Note (d)	Monetary	% of payroll	Monetary	Monetary	Monetary	Monetary
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term if less than 4 years, else no reduction
Probability of achieving target – Note (e)	[66%]	[75%]	[66%]	[75%]	[80%]	[50%]
Phasing of contribution changes	Covered by stabilisation arrangement		3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

Currently the only eligible Fund employer is the London Borough of Brent's Council Pool, although Academies will pay the same rate as the Council for at least the three years beginning 1 April 2017 (see Note (g)).

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details for the Council Pool are as follows:

- Notional contribution rate 2017/18 starts 32.5% and rises 1.3% to 33.8% at 2018/19 and rises a further 1.2% to 35% in 2019/20 ;
- Actual contribution rate split between % of pay element and £ lump sum element each year;
- % of pay element = Primary rate for the Council Pool as calculated at 2016 valuation;
- £ lump sum element = amount calculated as balance of notional contribution rate that year, when applied to payroll increased from 2016 in line with valuation assumption (as opposed to actual payroll that year).

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. This will take into account the Council's membership profile, whether stabilisation should continue to apply (and if so, whether this should be extended to other employers), and other relevant factors.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Secondary rate)

The deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given

minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

- v. The new academy's actual contribution rate will be as per the Council rate, but expressed purely as a percentage of pensionable pay. This applies whether or not the theoretical rate is above the Council rate. All other things being equal, this will mean some academies taking longer to pay off their deficit (where the theoretical rate is higher than the Council rate), or paying off the deficit more quickly (where the theoretical rate is below the Council rate).

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned

an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(i\)](#).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;

- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of

each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service).
- LEA schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.
- Academy schools may be pooled within their Multi Academy Trust (if this applies).
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members’ benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer’s consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions (‘strain’) wherever an employee retires before attaining this age. The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the Fund in the financial year following the award of an early retirement. In exceptional circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding three years. If this is agreed, interest will be charged using factors provided by the actuary.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

The cumulative cost of ill health retirements between actuarial valuations will in effect be reflected in the employer's results at the next valuation.

Where a different approach is adopted (eg regularly monitoring ill health experience and requesting contributions between valuations), details will be included in each that employer's Admission Agreement.

3.8 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(i\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.
- Active members switching employment from one Fund employer to another will result in assets equal to the past service liabilities being reallocated between the employers, i.e. a "fully funded transfer". This means that the deficit at the point of transfer is retained by the ceding employer.

However, in the case of schools converting to academy status (i.e. the members switch from Council employment to the new Academy); the process is instead as per Note (g) to section 3.3 above. This is because the guidance from the Department for Education and the Department for Communities and Local Government anticipates that the past service deficit will be inherited by the new Academy.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in February 2017 for comment;
- b) Comments were requested within 10 days;
- c) There was an Employers Forum in March 2017 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Brent website, at www.brent.gov.uk;
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;

- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.brent.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Investment Strategy Statement (ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and the ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p>

Risk	Summary of Control Mechanisms
	<p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2016 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>

Risk	Summary of Control Mechanisms
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of setting funding targets at the triennial funding valuation at 31 March 2016, and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that the discount rate used to measure the funding position at a given point in time will be 1.6% per annum greater than gilt yields at that time (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.8% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.8% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is a slight reduction (less than a year) in average life expectancies. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Investment Strategy Statement (Published March 2016)

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Brent Pension Fund (“the Fund”), which is administered by Brent Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Pension Fund Sub Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in February 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (1st April 2017).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Nonetheless, in the intermediate term while investment options become available within the London CIV or during a period of strategic investment reallocation, it may choose to increase allocations temporary in liquid assets with low fixed charges to ensure it does not make short-term decisions.

The Fund holds the following investment beliefs:

- i) *It invests with a longer-term horizon than typical Pension Funds and looks at the underlying value of the assets; it is willing to look beyond the 12-month window and ignore short-term under-performance for long-term gains*
- ii) *It does not seeks to move in and out investments regularly, as it believes this is a costly practice*
- iii) *It prefers investments with lower fees and charges, where possible, therefore looks to make use of the London CIV*
- iv) *It seeks to have a holistic investment strategy, that is broadly stable over any three year period but will adapt the allocation at an appropriate point in time to reflect the long-term economic trends and the Fund liabilities*
- v) *It seeks to not have more than 15 investment allocations, save where it is exiting individual investment managers, to ensure it can review and manage them with appropriate oversight*

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 1: Fund allocation

Asset class	Target allocation %	Maximum invested %
UK equities	15	20

Overseas equities	30	40
Total equities	45	60
Property	0	6
Fixed Income	15	20
Infrastructure	8	10
Diversified Growth Funds	21	21
Private Equity	10	12
Total	100	N/A

Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

Table 2: Investment Restrictions

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%
5. Total investment in illiquid assets[1]	30%

[1] Infrastructure, Private Equity and Property are classified as illiquid. However, other smaller asset classes or specific investments may be classified as illiquid in nature.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis. Details of the Fund’s approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Scheme’s assets managed on a passive basis. The Committee assess the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund’s Funding Strategy Statement (Appendix C).

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (CIV). The proposed structure and basis on which the London CIV will operate was set out in the July 2016 submission to government.

Assets to be invested in the pool

The Fund's intention is to invest its assets through the London CIV as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 to government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has already invested the following assets via the London CIV

Asset class	Manager	% of Fund assets	Benchmark and performance objective
Diversified Growth Fund	Baillie Gifford	9.1%	Base Rate +3.5%
Diversified Growth Fund	Ruffer	5.9%	Base Rate +3.5%

At the time of preparing this statement the Fund has elected not to invest the following assets via the London CIV:

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the London CIV
Passive Equity	LGIM – Global Ex-UK	32.1%	FTSE Developed World ex UK	Cheaper outside the CIV for technical reasons.
Passive Equity	LGIM - UK	13.1%	FTSE All Share	Cheaper outside the CIV for technical reasons.
Active Equity	Henderson – UK small caps	3.8%	FTSE Small Cap	Class not available through the London CIV
Property	Aviva - Europe	0.2%	IPD All Properties Index	Exiting Property
Bonds	Henderson	11.3%	Absolute Return 4% pa	Awaiting London CIV fixed income option
Infrastructure	Capital Dynamics	1.0%	Absolute Return 8% pa	Not available through the London CIV

Infrastructure	Alinda	3.0%	Absolute Return 8% pa	Not available through the London CIV
Private Equity	Capital Dynamics	7.8%	Absolute Return 8% pa	Not available through the London CIV
Cash	Cash	11.7%	Gilt Rate	Cash exists primarily for re-investment

Any assets not currently invested in the pool will be reviewed at least every year to determine whether the rationale remains appropriate. The next such review will take place on the 26 June 2018 meeting of the Pensions Sub Committee.

Structure and governance of the London CIV

The July 2016 submission to government of the London CIV pool provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured. As the Pool develops and the structure and governance of the Pool are fully established the Fund will include this information in future iterations of the ISS.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and each year it conducts a review of its policies in this area and its investment managers' approach to ESG. Details of the most recent review can be found on the Fund's website.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis. This may also be delegated to the London CIV in the future, as the vehicle with more weight to influence decisions in the future

Stewardship

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

For and on behalf of Brent Pension Fund Committee

Business Plan

Introduction

The Business Plan details the actions to be taken in order further to strengthen governance, administration and investment, on a structural basis. The aim is to be compliant on all key governance fronts, and to further improve the

1. Governance: Global custodian appointment

Brent PF used the National Framework Agreement to tender for a Global custodian and appointed Northern Trust to improve the monitoring of the fund. The appointment of a Global Custodian has moved Brent in line with LGPS best practice.

2. Governance: Engagement with the London CIV

Brent will continue to engage with the London CIV and invest in sub funds in line with its Investment Strategy Statement.

3. Investment Strategy and Asset Allocation review

The asset allocation should be agreed, forming the foundation on which the review of existing and potential fund managers is conducted. The framework should be agreed at the sub-committee meeting of the 26 June 2018.

4. Review of existing fund managers

A review of fund managers is to be completed, to identify managers who are not performing satisfactorily.

5. Focus on costs: internal and external

The focus on costs is not a one-off, but a continual process, and hence no one target date can be given; the process has started. This means reviewing the costs of external suppliers, and also looking to see where collaboration within the LGPS network (whether through a CIV or an ad hoc basis), will yield cost savings. The Brent PF Annual Report is moving to greater disclosure of costs, by detailing non-cash costs as far as possible.

The value for money of existing fund managers will be under scrutiny. Some fund managers are reducing costs “voluntarily”, i.e. before they are forced to do so. In other cases, Pension Officers will explore all available ways of reducing fees if the performance of the fund manager simply does not justify the fees.

Internally, attention must be paid to the direct and indirect costs allocated to the fund. The cost of administering the collection of pensions and pension member data, as well as the quality of the service provided, must be closely monitored in accordance with the Pensions Administration Strategy.

It should be noted that the reporting requirements of LGPS Pension Fund Annual Reports are moving rapidly towards the need for greater transparency with regard to the breakdown of all costs.

Risk Framework

Brent Pension Fund constantly monitors risk at all levels. In investment, risk is defined as the permanent loss of capital. Risks are assessed at market level, and also at the fund manager level. Fund managers may employ a range of measures to mitigate risk, wherever possible. This may range from a process which avoids overpaying for an asset, or fund manager's risk committees and investment committees, which meet regularly to review and challenge the fund manager's approach and assumptions. Fund managers must contend with the potential mispricing of risk, caused by the hunger for yield.

Brent Pension Fund monitors the fund managers at least every quarter, when they report their performance. At this stage, it is not just the net returns which are studied, but also the attribution, i.e. the way in which the returns were achieved. The returns should be measured against the expected returns given prevailing market conditions and the investment process, in order to ensure that the fund manager is not tending towards "investment drift" or "style drift". Particular attention is paid to the actions taken by funds when market conditions change.

Pension Fund Officers ensure that all tasks carried out are compliant with best practise as detailed in the Statement of Investment Principles. This is in order to mitigate any governance risk (such as acting *ultra vires*).

Pension Fund Officers document meetings with fund managers, and report back to the Pension Fund Sub-Committee on a quarterly basis.

The key risks and controls in place to mitigate investment risks are included in the Funding Strategy Statement.

Third party risks such as payments of contributions are robustly monitored, as laid out in the Pensions Administration Strategy.

Assurance over third party operations is sought by requesting relevant documentation, such as AAF 01/06 assurance reports on the internal controls of these service organisations.

An on-going framework of inspection and review by the Fund's internal auditors (PwC) and external auditors (KPMG) supports and assists with the management of risks.

PENSION ADMINISTRATION STRATEGY

The commencement date for this Strategy is 1 April 2014.

This strategy recognises that for administration costs to be minimised, and the mutual service to the member to be maximised, employers and the administering authority must co-operate closely.

Introduction

The purpose of this Pension Administration Strategy (PAS) is to provide a written statement of the administering authority's policies relating to pension administration matters to facilitate the delivery of effective and efficient pension administration services to all Scheme members.

The extent to which the levels of performance established under this Strategy have been achieved will be published in the Brent Pension Fund Annual Report.

This PAS includes:

- an overview of the administration of the Brent Pension Fund;
- the Regulations;
- review process for this Strategy;
- the responsibilities of Scheme employers and the administering authority;
- policy on charging employers for poor performance.

Administration of the Brent Pension Fund

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The Team is a contact point for employees who wish to join the Scheme, for advice on procedures and for queries and complaints.

The Pensions Team is accountable to the Pension Fund Sub-Committee, participating employers and Scheme members. The Team are fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to delivering excellent customer care.

The Fund's administration costs are monitored throughout the year by the Fund's management team and reported in the Pension Fund Annual Accounts.

The Regulations

This Strategy is made under regulation 59 of the Local Government Pension Scheme Regulations 2013. Related legislation includes:

- the LGPS (Benefits, Membership & Contributions) Regulations 2007;
- the LGPS (Transitional Provisions) Regulations 2007;
- the Local Government (Early Termination of Employment)(Discretionary Compensation)(England and Wales) Regulations 2000;
- the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 – amended by the Occupational Personal & Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010.

Review of this Strategy

This Strategy will be reviewed at least triennially or following any material change in regulations that necessitate a change if sooner.

Employer responsibilities

Each Scheme employer shall nominate a representative who will act as the primary contact who will be responsible for ensuring that all documentation and/or instructions are forwarded to the Brent Pension Fund in accordance with the prescribed timescales.

Specific employer responsibilities include:

- paying over employer and employee contributions to the Fund and providing a schedule of payments in the format stipulated by the Fund, with cleared monies to be received by 19th calendar day of month after deduction
- arranging for the deduction of Additional Voluntary Contributions (AVCs) and payment over of contributions to the AVC provider by the 19th calendar day of the month after deduction
- notifying the Fund when a Scheme member leaves employment within 15 working days of month end of leaving. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided or by completion and submission of the online Leaver Notification via Hartlink Online

- notifying the Fund when a Scheme member is due to retire including an accurate assessment of final pay and reason for retirement within 15 working days **before** the retirement date. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided
- notify the Fund of the death of a Scheme member as soon as practicable, but within 5 working days. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided.
- providing new/prospective Scheme members with a starter form and a Scheme guide (or refer them to the Fund website) within 5 working days of commencement of employment or change in contractual conditions
- notifying the Fund of new starters within two months of the employee joining, or such shorter period as required by any auto-enrolment obligations. Data should be submitted via Hartlink Exchange allowing the employer to transfer member data directly to Capita's administration system, Hartlink by way of a secure encrypted website.
- providing year end information required by the Fund, via Hartlink Exchange in the format stipulated in the instructions issued to the nominated representative in February each year. Full data must be submitted by 30 April following the year end
- responding to enquiries from the Fund within 10 working days
- notifying the Fund if contracting out services which will involve a Transfer of Undertakings Protection of Employment (TUPE) transfer of staff to another organisation
- notifying the Fund if the employer ceases to admit new Scheme members or decides to terminate membership of the Fund as soon as possible.

It is imperative that the timescales referred to above are adhered to so that Capita Employee Benefits are able to administer the Fund within the timescales set out in line with Disclosure requirements

Fund responsibilities

Brent Council is the administering authority of the Brent Pension Fund and administers the LGPS on behalf of its participating employers.

The Fund's responsibilities include the following:

- the administration of pensions records, including the preparation and distribution of the Annual Benefit Statements to all Scheme members
- the timely collection of contributions
- the calculation and payment of pensions, including the administration of the annual pensions increase
- advice and guidance to Scheme members
- advice and guidance to employers
- early retirement schemes for Fund employers
- to ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud
- to appoint an Additional Voluntary Contributions (AVC) provider.

The Brent Pensions Team is available for day to day contact to discuss any aspect of the administration of the Scheme. It publishes and keeps up to date an *Employer Manual* which contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request.

The service objective is to operate in 90% (or better) accordance with standards that are in summary as below:

Task	Target
Letter detailing transfer-in quote	10
Letter detailing transfer-out quote	5
Process refund and issue payment voucher	10
Letter notifying estimate of retirement benefit	3
Letter notifying actual retirement benefit	2
Process and pay lump sum retirement grant	3
Letter acknowledging death of member	3
Letter notifying amount of dependant's benefits	3
Calculate and notify deferred benefits	15
Pensions forecasts issued for deferred members as at 31 March each year	By the first week of May annually

Pensions forecasts issued for active members as at 31 March each year	By 31 st August annually
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Results of these key performance indicators are published in the Brent Pension Fund Annual Report, for the previous financial year.

We use this data to target areas of improvement in our service provision. It helps us to understand the specific service pressures that the Fund faces and to operate as effectively and efficiently as we can.

Policy on charging employers for poor performance

Where an employer materially fails to operate in accordance with the standards described in this Strategy, which leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer.

Glossary

Active Management

A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with passive management that seeks to replicate the performance of a selected benchmark.

Actuarial assumptions

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.

Actuarial Valuation

A review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

Actuary

An independent qualified consultant who carries out the Actuarial Valuation and advises on new investment strategies.

Administering Authority

A local authority with statutory responsibility for running a pension fund under LGPS regulations, in effect the Fund's "trustees". Within the geographical boundary of the London Borough of Brent this is Brent Council.

Admitted Bodies

An organisation, which, under the Pension Scheme Regulations, is able to apply to the Administering Authority to join the Scheme (e.g., a contractor providing services to the Council or another scheduled body). Upon acceptance, an Admission Agreement is prepared which sets out the employer's obligations and admits the organisation to voluntarily participate in the Fund and allowing its employees to join.

Alternative Investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Asset Allocation / Asset Mix

The apportionment of the Fund's assets between asset classes and/or markets. Asset allocation may be either strategic, i.e., long term, or Tactical, i.e., short term, aiming to take advantage of relative market movements.

Auditor

An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

AVCs

Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Clerical Medical and Equitable Life).

Benchmark

A "notional" fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g., for a global equity fund the benchmark against which it will be measured could be made up 70%/30% by overseas equities/UK equities. A target return is generally expressed as some margin over the benchmark.

Bond

A certificate of debt, paying a fixed rate of interest for a defined period of time, issued by companies, governments or government agencies.

Bulk Transfer

A transfer of a group of members agreed by and taking place between two pension schemes.

Cessation Valuation

A calculation carried out by the Actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

Common contribution rate

The Fund-wide future service rate plus past service adjustment. It should be noted that this will differ from the actual contributions payable by individual employers.

Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

Contingent Liability

A possible loss, subject to confirmation by an event after the Balance Sheet date, where the outcome is uncertain in terms of cost.

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Deficit

The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Discount rate

The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.

Dividends

Income to the Fund on its holdings of UK and overseas shares.

Emerging Markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies that can be traded on public markets.

Final Pay

This is the figure used to calculate most of a member's pension benefits and is normally their pay in the last year before they retire, or one of the previous two years' pay if that amount is higher. For a part-time employee, the figure used is normally the pay they would have received had they worked whole time.

Fixed Interest Securities

Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

FTSE

A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund Manager

A firm of professionals appointed by the Pension Fund Sub-Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.

Funding Level

The ratio of assets value to liabilities value.

Funding Target

The amount of assets which the Fund needs to hold at any point in time to meet all benefits promised.

Future service rate

The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.

Gilts

Fixed-interest bonds issued by the British government, i.e., a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. They are the equivalent of U.S. Treasury securities.

Global Custodian

A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

Guarantor

A body which guarantees to pay for an Admitted Body's liabilities in case of default. For any new Admitted Body wishing to join the Fund, the Administering Authority will require a Guarantor. The presence of a Guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its Guarantor's.

Hedge Fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Hedging

A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.

Income Yield

Annual income on an investment divided by its price and expressed as a percentage.

Index

A measure of the value of a stock market based on a representative sample of stocks. An index is often used as a benchmark for the performance of a group of shares or bonds.

Index-Linked Securities

Investments which generate returns in line with an index.

Investment Adviser

A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS

Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme. Government Regulations dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g., regarding investment strategy, employer contributions and choice of advisers.

Liabilities

The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.

LIBOR

London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.

Mandate

A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g., targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).

Market Value

The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Orphan Liabilities

Residual liabilities of employers from whom no further funding can be obtained.

Outperformance / underperformance

The difference in returns gained by a particular fund against the "average" fund or an index over a specified time period, i.e., a target for a fund may be outperformance of a given benchmark over a three-year period.

Past service adjustment

The part of the employer's annual contribution which relates to past service deficit repair.

Performance

A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the "average" fund of a particular benchmark.

Pooled Investment Fund

A collective investment scheme that works by pooling money from different individual investors.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Portfolio

Term used to describe all investments held.

Private Equity

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e., current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Recovery Period

Timescale allowed over which surpluses or deficiencies to the Fund can be eliminated.

Regulations

The Scheme is governed by Regulation approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.

Risk

Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more "stable" investments before investors will buy them.

Scheduled Bodies

These are organisations as listed in the Local Government Pension Scheme Regulations 1997 (Schedule 2) who must be offered membership of their local LGPS Fund as of right. These include Councils, colleges, universities, academies, police and fire authorities, etc., other than employees who have entitlement to a different public sector pension scheme (e.g., teachers, police and fire officers, university lecturers).

Securities

Investment in company shares, fixed interest or index-linked stocks.

Solvency

When the Fund's assets are greater than or equal to 100% of the Funding Target, which is the liabilities value.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Statement of Investment Principles

Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g., risk, balance between real and monetary assets, realisability of assets, etc.).

Theoretical contribution rate

The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.

Transfer Value

Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.

Unit Trust

A method which allows investors' money to be pooled and used by fund managers to buy a variety of securities.


Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Yield Curve

A graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. For bonds, it typically compares the two- or five-year Treasury with the 30-year Treasury.

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	Pensions Fund Sub-Committee 26 June 2018
	Report from the Chief Finance Officer
Update from the London Collective Investment Vehicle	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	1
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 The purpose of this report is to update the committee on recent developments within the London CIV and the timescales attached to making investment decisions.

2.0 Recommendation(s)

- 2.1 The Committee is asked to note the recent developments with the London CIV, in particular the outcome of the governance review and the new investments available for investment in late 2018.

3.0 Investment Overview

- 3.1 As at 31 March 2018 the LCIV's assets under oversight had grown to just under £15 billion, which represents around 40% of the 32 London Local Authorities total assets under management. A further £1 billion has been committed to the LCIV funds for transitioning during the second quarter. This will take the number of LLAs using the funds made available through the LCIV to 30.
- 3.2 Brent has 61% (£507m) of its assets under management overseen by the LCIV. 46% (£382.7m) is a passive investment product in overseas and UK equities

through Legal & General and 15% in two diversified growth funds, Ruffer 5.9% (£48.8m) and Baillie Gifford 9.1% (£75.5m). The Fund has achieved fee savings in the region of £0.1m per annum as a result of being part of the LCIV.

- 3.3 The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and diversified growth managers has largely concluded and now has a number of offerings available. A summary of all sub funds currently available is shown in Appendix one.

- 3.4 The LCIV are now launching a new range of fixed income strategies. A 'meet the manager' day was organised on 16 May 2018 to present the following funds:

Multi Asset Credit Fund managed by CQS
Long/Short Multi Asset Credit Fund managed by MidOcean
Global Bonds Fund managed by Pimco
Global Liquid Loans Fund managed by Ares

- 3.5 These funds are expected to launch in late 2018 or as soon as commitments have been received.

- 3.6 In light of the investments already available (equity and diversified growth funds shown in Appendix one) and investments upcoming in 2018 (fixed income), as well as the outcome of the investment review on the same agenda, Brent officers will be meeting representatives of the LCIV over the summer to discuss the Fund's next steps in terms of the timing of future investment decisions. The outcome will be presented to the sub-committee meeting scheduled for 22 November 2018.

4.0 Governance

- 4.1 The London CIV commissioned a governance review which took place during the autumn of 2017. This was primarily due to a change in the wider context within which the LCIV has been operating. The Government has decided that pooling should be mandatory across the country and have set an ambitious timetable for this to be progressed. The LCIV was very consciously set up as a voluntary scheme with the decisions on investment lying with the individual pension funds. The final review which was undertaken by Willis Towers Watson and was circulated to the Pensions Committee in February 2018. The report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. The report also recommended that the CIV strengthen its capacity to engage with individual LLAs. In response to this, the CIV has launched a consultation which funds had to respond to before the end of February 2018. Following the

outcome of the consultation LCIV have established new arrangements for shareholder engagement and decision-making.

4.2 Both the Pensions CIV Sectoral Joint Committee on 14 March and Leaders' Committee on 20 March gave their support to the proposals, including that, with the dissolution of the Pensions CIV Sectoral Joint Committee, two shareholder General Meetings and Quarterly Shareholders Committee Meetings would be held each year instead. The precise timings of these shareholder meetings are yet to be confirmed but it is expected that the first General Meeting will be 12 July 2018

4.3 The Fund, along with all other 32 London boroughs via the Society of London Treasurers, is actively engaging with the LCIV to seek clarity on and improve its governance, its investment model and how it communicates with its stakeholders. It is important that the Fund understands which decisions are being made on their behalf and the supporting decision making process.

5.0 Financial Implications

5.1 Not applicable.

6.0 Legal Implications

6.1 Not applicable.

7.0 Equality Implications

7.1 Not applicable.

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

9.0 Human Resources

9.1 Not applicable.

Report sign off:

Conrad Hall
Chief Finance Officer

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1	Investment Summary	2	LCIV Update	3	Market Update	4	Funds	5	LCIV Fund Range	6	Appendices	14
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LCIV Fund Range

Please see below a summary of the LCIV funds, including both those in which you are invested, and those you are not. All performance is reported Net of fees and charges with dividends reinvested. For performance periods of less than a year performance is annualised.

UK Equity	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
LCIV MJ UK Equity Fund (Majedie Asset Management) <i>Benchmark: FTSE All Share Index</i> Performance Against Benchmark	£494m	£6m	(6.39) (6.87) 0.48	n/a n/a n/a	(5.01) (1.66) (3.35)	18/05/2017	3
Global Equity							
London LGPS CIV Global Equity Alpha Fund (Allianz Global Investors) <i>Benchmark: MSCI World Index Total Return (Net) in GBP</i> Performance Against Benchmark	£720m	unlimited	(2.84) (4.80) 1.96	9.05 1.25 7.80	16.44 14.05 2.39	02/12/2015	3
London LGPS CIV Global Alpha Growth Fund (Baillie Gifford & Co) <i>Benchmark: MSCI All Country World Gross Index</i> Performance Against Benchmark	£1,808m	£650m	(0.94) (4.44) 3.50	13.10 3.17 9.93	23.95 17.25 6.70	11/04/2016	9
LCIV NW Global Equity Fund (Newton Investment Management) <i>Benchmark: MSCI All Country World Index Total Return (Gross)</i> Performance Against Benchmark	£531m	unlimited	(4.47) (4.38) (0.09)	n/a n/a n/a	0.89 4.07 (3.18)	22/05/2017	3
LCIV LV Global Equity Fund (Longview Partners) <i>Benchmark: MSCI World Index Total Return (Net) in GBP</i> Performance Against Benchmark	£425m	closed	(4.02) (4.80) 0.78	n/a n/a n/a	(0.72) 0.01 (0.73)	17/07/2017	3
LCIV EP Income Equity Fund (Epoch Investment Partners) <i>Benchmark: MSCI World Index Total Return (Net) in GBP</i> Performance Against Benchmark	£212m	£538m	(7.57) (4.80) (2.77)	n/a n/a n/a	(20.11) (12.76) (7.35)	08/11/2017	2
LCIV HN Emerging Market Equity Fund (Henderson Global Investors) <i>Benchmark: MSCI Emerging Market Index (TR) Net</i> Performance Against Benchmark	£76m	£424m	n/a n/a n/a	n/a n/a n/a	(22.75) (22.35) (0.40)	11/01/2018	1
Multi Asset							
LCIV PY Global Total Return Fund (Pyrford International)	£274m	unlimited	(2.10)	(2.33)	3.62	17/06/2016	4
London LGPS CIV Diversified Growth Fund (Baillie Gifford & Co)	£480m	£8,000m	0.52	4.77	9.03	15/02/2016	6
LCIV RF Absolute Return Fund (Ruffer LLP)	£826m	£674m	(2.55)	(1.15)	5.63	21/06/2016	10
LCIV NW Real Return Fund (Newton Investment Management)	£331m	unlimited	(2.56)	(2.00)	1.00	16/12/2016	3
Total LCIV Assets Under Management	£6,175m						

*Remaining capacity available for investment as at 31 March 2018.

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	Pensions Fund Sub-Committee 26 June 2018
	Report from the Chief Finance Officer
Investment Advice Procurement	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	0
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 The purpose of this report is to set out the proposed procurement process to be adopted in relation to the contract for investment advice, where the current contract expires on 30 September 2018.

2.0 Recommendation(s)

- 2.1 That the Committee grant delegated authority to the Chief Finance Officer to appoint a provider for investment advice services to the Fund, following a procurement process that will be carried out by officers.
- 2.2 That the committee nominate, if it deems appropriate to do so, representatives to attend the interview and presentation stage of the procurement process.

3.0 Detail

- 3.1 In order for Brent to carry out its functions as an Administering Authority under the Local Government Pension Scheme regulations, the Council must take proper advice in relation to investment of the Fund's assets. The incumbent provider is MJ Hudson Investment Advisers Ltd, and have been advising the Fund since September 2013.

- 3.2 The current contract for investment advice services with MJ Hudson Investment Advisers Ltd expires on 30 September 2018.
- 3.3 Procurement exercises are the method that the Council uses to ensure that value for money is maintained when seeking supplies and services contracts from third parties. The LGPS investment environment is changing radically over the next few years with the introduction of asset pooling, therefore, Officers feel that best value can be delivered by testing the market at fairly regular intervals in coming years. Hence, it is recommended that this contract would be awarded for a period of three years only, with an end date of 30 September 2021, with the option to extend for one year.
- 3.4 Norfolk County Council has set up a National Framework for Investment Consultancy Services for the use of LGPS Funds. The framework is used extensively by LGPS funds. The framework increases transparency when it comes to fees, and comparability between firms. Officers therefore feel that the use of the framework presents best value for the fund. It was therefore thought best to use the framework agreement to conduct the procurement exercise.
- 3.5 There are eight firms signed up to this framework:
- Aon Hewitt
 - Deloitte
 - Hymans Robertson LLP
 - JLT Employee Benefits
 - KPMG
 - Mercer Ltd
 - PricewaterhouseCoopers LLP
 - Redington Ltd
- 3.6 Officers are proposing to carry out a mini competition in order to appoint one of the firms above, and Invitation To Tender (ITT) will be sent to all eight firms inviting them to tender for the contract.
- 3.7 The procurement exercise will consist of two stages. The first stage will assess written submissions from all firms to assess 'price' and 'quality'. The three firms who score most highly at this stage will then be called to the second stage of the procurement. This second stage will consist of a presentation and interview where 'service fit' will be assessed.
- 3.8 All costs of the contract will be met fully by the pension fund, i.e. there will be no direct cost implications for the Council. The pension fund maintains a separate bank account for the payment of pension fund related costs, such as those for investment consultancy services.
- 3.9 The contract will be priced by activity, and the pricing structure for each provider on the framework is fixed so that the prices for all LGPS funds calling off the framework for this specific provider are the same. Officers estimate that the likely spend will be in the region of £40k-£50k per annum.

4.0 Financial Implications

- 4.1 The Council must take proper investment advice in relation to the Fund's assets, therefore appointing an investment advisor is necessary.
- 4.2 The estimated cost of the contract will be approximately £40k-£50k per annum. This estimate is based on the framework pricing schedule and the level and volume of work likely to be requested by the Fund. The cost will be funded by the pension fund.

5.0 Legal Implications

- 5.1 Not applicable.

6.0 Equality Implications

- 6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.


8.0 Human Resources

- 8.1 Not applicable.

Report sign off:

Conrad Hall
Chief Finance Officer

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	Pensions Fund Sub-Committee 26 June 2018
	Report from the Chief Finance Officer
Regulatory Oversight of Local Government Pension Schemes	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	0
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 The purpose of this report is draw attention to the regulatory framework within which the LGPS operates, as part of the Public Services Pension Act 2013, and the work that has been undertaken to date by Central Government.

2.0 Recommendation(s)

- 2.1 Note that the Pension Fund will need to comply with the section 13 process, responding to all queries and requirements of the Government Actuary Department (GAD).
- 2.2 Note that the outcome of the review by GAD will come back to this Committee when the work has been completed.

3.0 Background

- 3.1 Section 13 of The Pensions Act introduces additional measures by which the activity of the LGPS is overseen by Central Government, that has in turn appointed GAD (Government Actuary Department) to be the “appointed person” to deliver that function.

- 3.2 The legislation requires GAD, as the 'appointed person' to report on whether the LGPS funding valuations comply with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency. Section 13 is a review mechanism to ensure that all the valuations use appropriate assumptions but the power will still sit locally to determine appropriate contribution rates that reflect local circumstances, as there is no 'one size fits all' approach.
- 3.3 The Act explicitly gives power to the Government to force changes if necessary. It may also require an authority to report on progress and/or direct scheme manager to take remedial steps. These remedial steps potentially could range from providing additional clarity on matters to an increase in contributions with immediate effect
- 3.3 A dry-run process reviewing funding valuation methodologies and results took place using 2013 data to determine where problems actually lay as opposed to where Government thought they did. GAD has used standardised calculations to see where there were outliers, which allowed them to pick out funds at greater risk. Overall, it was found that the LGPS was in a healthy position and has been largely well run.
- 3.4 That said, a number of schemes were flagged by GAD as a cause for concern with regards to solvency and long term cost efficiency. Apart from the known funding level matter Brent was not flagged a significant cause for concern, principally due to having set appropriate contribution levels, demonstrating a reducing deficit recovery period between valuations and adopting reasonable actuarial assumptions. Schemes that were flagged as a cause for concern were those with relatively low contribution rates combined with low funding levels and deficit recovery periods that were not reducing between valuations.

4.0 2016 Valuation

- 4.1 GAD have now completed their analysis on the 2016 valuations of all LGPS funds and will be publishing the report in late 2018. As part of this, GAD have been running a number of roadshows across the country to explain some of their findings and have been meeting with a number of schemes to discuss matters specific to their scheme. On 4 June 2018 Brent officers attended the London roadshow and had its meeting with senior officers from GAD and the Ministry of Housing, Communities and Local Government (MHCLG). The meeting was to explain that, similar to the 2013 dry run findings, that Brent has been flagged for its funding level but that overall it is not a significant cause for concern as we had set appropriate contribution levels, demonstrated a reducing deficit recovery period between valuations and adopted reasonable actuarial assumptions. GAD and MHCLG were also assured with Brent's approach to maximising investment returns by undertaking an asset liability matching exercise and our commitment to transitioning assets to the London CIV.
- 4.2 The roadshow focussed primarily on the importance data and why it matters. Data is becoming a big focus for the Government and its regulators, in particular The Pensions Regulator. All pension schemes are required to collect and hold large amounts of data on scheme members in order to calculate and pay out

benefits accurately. Therefore having inaccurate and/or incomplete data can impact on the ability of a scheme to run effectively and meet its legal obligations. Brent is compliant with The Pensions Regulator's guidance on this matter by having a robust record keeping plan in place, with progress regularly reported to the Pensions board.

5.0 Financial Implications

5.1 There are no direct financial implications from this report.

6.0 Legal Implications

6.1 Not applicable.

7.0 Equality Implications

7.1 Not applicable.

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

9.0 Human Resources

9.1 Not applicable.

Report sign off:

Conrad Hall
Chief Finance Officer

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MINUTES OF THE PENSION BOARD **Monday 12 March 2018 at 7.00 pm**

PRESENT: Mr Ewart (Chair), Councillor Kabir, Ms George, Mr Stewart and Mr Steer.

1. Apologies for absence

Received from Councillor Crane and Mr Dawson

2. Declarations of interests

Mr David Ewart (Independent Chair) declared that he was the Chair of Audit Advisory Committee which had considered the report on Pensions Administration Audit.

3. Minutes of the previous meeting - 21 November 2017

RESOLVED:

That the minutes of the last meeting held on 21 November 2017 be approved as an accurate record.

4. Matters arising

London CIV

Mr Ravinder Jassar (Head of Finance) updated members that following a review by Towers Watson on London CIV which highlighted various issues including governance arrangements and performance, a consultation with stakeholders was taking place on future direction of London CIV.

5. Pensions Administration Internal Audit

The Board received a report which included findings and actions agreed by management following a recent audit of the Council's Pensions Administration arrangements. In introducing the report, David Ewart (Independent Chair) commented that although the findings were equally disappointing and worrying, the key point to bear in mind going forward was whether lessons could be learnt from the exercise.

Mr Ravinder Jassar (Head of Finance) referenced the recommendations set out in the action plan, attached as an appendix to the report, and provided updates: Members were advised that the following had been completed:

- (i) The checking of the completeness of the performance reports monthly to ensure indicators are not omitted from reporting.
- (ii) Implementation of a spot checking procedure to check the result reported agrees to the underlying performance data for a defined sample of indicators each month.

- (iii) Recording of specific key points and actions concerning under performance discussed in the contract monitoring meetings, to ascertain Capita's underperformance and what their actions were to address it.
- (iv) Validation activity plan to ensure that assurance is obtained across all performance areas over time, performing a risk mapping exercise to ensure that validation plans are focussed on key risks and all sources/methods of assurance are identified and utilised. This will ensure that independent assurance is targeted at key risk areas.
- (v) Management have already requested all other payroll providers/employers to provide a correct Pensions Contribution List.
- (vi) Note that the outstanding reconciling items are made up of previous period amounts (pre-April 2017), for which the transactions will be cleared, and current year amounts, for which the Head of Finance for Children and Young People will email the schools to seek the correct information.
- (vii) Review the bank reconciliation policies and procedures annually to ensure they are updated to reflect any changes to the process.

The following action plans were still in progress:

- (i) Capita to investigate the exceptions noted in this report and to ensure an audit trail of each of the third parties submissions is retained.
- (ii) Capita to use a more detailed monitoring tracker that not only shows the status of each submission but also the status of the request with each employer and key dates to enable timeliness of data checks to be monitored.

In noting the report members were united in expressing a view that the findings were equally disappointing and worrying and going forward, emphasised the need to ensure that lessons should be learnt from the exercise.

RESOLVED:

- (i) That the main issues highlighted in the pensions administration audit report following a "limited assurance" audit opinion and the actions to be taken by management to address them be noted.
- (ii) That an updated report be submitted to the next meeting of the Board.

6. **Reconfiguration of Resource Department**

Members received a report that set out the outcome of the reconfiguration of the Resources Department and the implications for the Pensions Administration service. Ravinder Jassar (Head of Finance) drew members' attention to the report which was agreed by the Cabinet in October, attached as an appendix to the report. Members were advised that under the new reconfiguration, the pensions and payroll functions which hitherto fell within the remit of the Director of Human Resources would now move to the Chief Finance Officer remit.

In welcoming the report, members expressed their satisfaction over the additional resources being made available to the Pensions Administration service.

RESOLVED:

That the report be noted.

7. The Pensions Regulator

Members considered a report that provided an update to previous report to the Pensions Board on the requirements of The Pensions Regulator in relation to the scheme's record keeping plan and the current status of annual benefit statements. This was in view of previously reported breaches of statutory regulations and the significant data issues that had been identified as a result.

Mr Ravinder Jassar (Head of Finance) informed the Board that following the submission of the Record Keeping Plan presented to the Pensions Board on 21 November 2017, The Pensions Regulator wrote to Brent on 29 November stating that the plan did not meet the standards expected as set out in their guidance and therefore adherence to the regulations (Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014). The Regulator recommended that their letter be shared with the Board to ensure they were fully aware of the Regulator's expectations in regards to the scheme's record keeping and the steps the scheme manager was required to take to address the problem

Mr Jassar clarified the areas in which The Pensions Regulator highlighted that the Record Keeping Plan did not meet the standards expected as set out in their guidance. The Pensions Regulator expressed the following elements to be incorporated in the improvement plan:

- Clear objectives, in order of priority, on how Brent intended to achieve improvements in data,
- Clear outcomes that would be achieved based on the objectives set, including how they would be measured and how long it would take to achieve them
- Clearly set out the scope of improvement work
- A breakdown of activities the scheme administrator would undertake on behalf of the scheme manager, including methodology used, resource allocation, timescales and success criteria.
- A timeline that sets out key milestones, reporting and decision points.

Mr Jassar updated members that the revised record keeping plan was submitted to the Regulator, as set out in appendices attached to the report. Officers then met with the Regulator on 22 January 2018 to discuss the record keeping plan and actions being taken to address the data issues. Initial feedback was positive and further checkpoint meetings were planned over the next six months to monitor progress against the plan. He added that Capita had made significant progress in issuing the remaining annual benefit statements and additionally, Brent had commissioned a specialist tracing company to locate and contact the deferred members who had changed addresses but had not informed Brent for their records to be updated.

Mr Jassar continued that the Council had also improved the layout of the external website, linking the Pension's webpage to the Pension Board's democratic services webpage to ensure all relevant information could be easily identified by members and interested parties. Other useful information had also been added including the Pensions Administration Strategy, the Funding Strategy Statement, the Investment Strategy Statement and actuarial reports.

Members enquired as to the reasons why Brent failed to meet the requirements of the Pensions Regulator as outlined in their report and did not get it right the first time. They also expressed a view for sanctions to be applied to those employers who failed to comply with the requirements. In response Mr Jassar stated that the reason for not getting it right the first time was that the Regulator's guidance was not adequately followed, which clearly required more specific information in terms of timelines, milestones, dependencies and success criteria. The various issues are now well understood and have been clearly documented in the revised Record Keeping Plan. Officers will also explore the use of sanctions for non-compliant employers as part of a wider review of the Pensions Administration Strategy to be undertaken in 2018/19.

RESOLVED:

- (i) That the updated report on the Pensions Regulator's Record Keeping Plan be noted;
- (ii) that officers be requested to investigate possible sanctions that could be applied to participating employers that failed to comply with the statutory regulations;
- (iii) that a progress report be submitted to a future meeting of the Board.

8. Update on Pensions Administration Contract

The report before members provided an update on the transition of the Pension Administration contract from the current supplier, Capita, to the new supplier, Local Pensions Partnership (LPP), together with a summary of the high level transition plan and actions required in the run up to the contract handover to LPP

Ms Folake Olufeko (Senior Finance Analyst) in introducing the report informed members that the transition followed Cabinet's approval for officers to enter into a shared service agreement with LPP for the provision of the pension fund administration. She continued that a number of documents which would serve as the binding contract had been received from LPP and were being reviewed by Legal Services. She added that the current contract with Capita was due to end in September 2018 and we are now in the implementation phase with LPP in order to allow for the minimum of 9 months lead-in time required for a successful transition. She then delivered a further update on the Exit Plan.

Members heard that on 17 January 2018 an Exit Plan meeting, which was key to ensuring that the key contacts who would be involved in the transition going forward were formally introduced, took place between Brent (LBB), Capita and LPP. The meeting also served as a platform to discuss transition plans and requirements from all parties involved in the project. A number of action points were agreed at the meeting and officers were monitoring progress through weekly follow up meetings with both LPP and Capita. This was in addition to the on-going monthly performance meetings being held between LBB and Capita.

In order to achieve a successful transfer, Aquila Heywood (software provider of Altair, which is the Local Government Pension admin system used by LPP) would be much involved in the implementation phase of the project to ensure that technical requirements, such as data migration and data mapping, from Capita's administration system, successfully transfer to LPP's system. She drew members'

attention to the appendix to the report which provided details of an Implementation Plan adapted for both suppliers to create a joint plan for all parties involved to ensure a smooth implementation and transition to LPP. Further reports would be brought to the Pensions Board to provide updates on key milestones within the plan.

RESOLVED:

- (i) That the update on pensions administration contract be noted.
- (ii) That the Board be updated on progress at their next meeting.

9. **Any other urgent business**

None.

10. **Date of next meeting**

The date of next meeting would be confirmed at the Annual Meeting of the Council on 15th May 2018.

The meeting closed at 7.40 pm

MR. D EWART
Chair

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