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Brent Pension Fund Sub-Committee*

Tuesday 6 November 2018 at 6.00 pm
Board Room 2 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

Membership:

Members	Substitute Members
Councillors:	Councillors
S Choudhary (Chair) Aden (Vice-Chair) Daly Lo Maurice Perrin Stephens	A Choudry, Kabir, McLeish and Naheerathan Councillors Colwill and Kansagra

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democracy.brent.gov.uk

The press and public are welcome to attend this meeting

Please note the agenda was republished on the 30 October 2018 to reflect membership changes as approved by the General Purposes committee on 17 July 2018.
** Please note the agenda was republished on 1 November 2018 to reflect updated appendices under Item 5.

recycle for Brent

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 of trade union).

(b) The interests a 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

8 Brent Pension Fund Annual Accounts and Annual Report 2017/18 55 - 184

The report presents the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018.

9 Minutes of the Pension Board 185 - 192

10 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.

Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

Brent

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 26 June 2018 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Abdi (Vice-Chair) and Councillors Kabir, Lo, Maurice and Perrin.

Apologies for absence were received from: Councillors Gbajumo, Shahzad and Ms.Hammond.

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

   None declared.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 13th February 2018 be approved as an accurate record of the meeting subject to showing "Peter Davies as being present"..

3. **Matters arising**

   None.

4. **Deputations**

   None.

5. **Monitoring report on fund activity for the quarter ended March 2018**

   The Sub-Committee considered a report that provided 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. Peter Davies (Independent Adviser) introduced his quarterly report.

   Members heard that while all regions were expecting good growth in 2018, forecasts had 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. Mr Davies continued that the performance of the UK equity market continued 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. 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.

In terms of economic outlook, Mr Davies informed the Sub-Committee that the yield on the 10-year US Treasury bond had 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. He added that the long-awaited return of volatility was expected to remain a feature of equity markets in the coming months, and the geo-political uncertainties were likely to weigh heavily on markets. In response to members' questions about performance, he advised for the need to manage expectations and cautioned against jumping from equities as pension fund investments involved long term decisions.

Ms Folake Olufeko (Senior Finance Analyst) in summarising the headlines of the fund activity for the quarter informed members that in the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m. 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. She drew members' attention to the tables within the report and clarified the reasons for performance/returns on the respective investments. Members noted that fixed income (Henderson Bond Fund) marginally appreciated in the quarter whereas equities saw a decrease in value of £20.8m and a significant depreciation in infrastructure representing the worst ever performance since 2016. On Diversified Growth Fund (DGF) she clarified the reporting times that showed a decrease in Baillie Gifford's performance and went on to add that Ruffer's poor performance was as a result of its link to higher investments in equities which did not perform as predicted.

RESOLVED:

That the Independent Financial Adviser's investment report and the Brent Pension Fund quarterly performance report be noted.

6. **Annual Reports and Accounts 2017/18**

Members considered a report that presented the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018. Mr Michael Almond (Graduate Trainee) informed the Sub-Committee that the accounts (which were unaudited) aimed 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. He then highlighted the salient aspects of the accounts.

Members heard that, 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 with corresponding increases in total contributions received from employers and employees. The total for the year was £49.8m, an increase on the previous year's total of £48.6m. Mr Almond advised that 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. He continued that as in in 2016/17, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members. Mr Almond added that the net impact of College of North West London ceasing to be an employer within the Fund and the return of BHP into the Fund was nil, drawing members' attention to notes to the accounts.

RESOLVED:

That the annual report and accounts for 2017/18 be noted.

7. **Update from the London Collective Investment Vehicle (London CIV)**

The purpose of this report was to update the Sub-Committee on recent developments within the London CIV and the timescales attached to making investment decisions. Mr Ravinder Jassar (Head of Finance) informed members that as at 31 March 2018 the LCIV's assets under oversight had grown to just under £15 billion, which represented around 40% of the 32 London Local Authorities total assets under management. He continued that Brent had 61% (£507m) of its assets under management overseen by the LCIV and that the Fund had achieved fee savings in the region of £0.1m per annum as a result of being part of the LCIV.

Mr Jassar drew members' attention to the fixed income strategy funds being launched by the London CIV as set out in the report and added that Brent officers would 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. He then updated members on the outcome of the governance review.

In welcoming the updated report, members expressed that they would like to receive a year on year comparative figures for the last 5 years.

RESOLVED:

That the recent developments with the London CIV, in particular the outcome of the governance review and the new investments available in late 2018 be noted.

8. **Investment Advice Procurement**

Mr Ravinder Jassar (Head of Finance) introduced the report which set out the proposed procurement process to be adopted in relation to the contract for investment advice, when the current contract with MJ Hudson Investment Advisers Ltd expires on 30 September 2018. Members were informed about the merits of National Framework for Investment Consultancy Services set up by Norfolk County Council including its transparency in fees and comparability between firms. Officers therefore recommended the use of that framework agreement in conducting procurement exercises. He drew members' attention to the list of firms that had signed up to the framework and outlined the stages of the procurement exercise as set out within the report.

Mr Jassar recommended the grant of 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. He also recommended a representative of the Sub-Committee to sit on the interview panel.

RESOLVED:

(i) That the Sub-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.

(ii) That Councillor Choudhary (Chair) be nominated to attend the interview and presentation stage of the procurement process.

9. **Regulatory Oversight of Local Government Pension Schemes (LGPS)**

The purpose of this report was 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. In setting the background, Mr. Ravinder Jassar (Head of Finance) informed the Sub-Committee that the Government Actuary Department (GAD) appointed by Central Government to oversee the activity of LGPS had reported on whether the LGPS funding valuations complied with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency.

He continued that 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. Members were advised that the 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. He undertook to report the GAD findings to a future meeting of the Sub-Committee. The Fund's actuary added that no major issues of concern were identified in Brent's valuation.

RESOLVED:

(i) To note that the Pension Fund would need to comply with the section 13 process, responding to all queries and requirements of the Government Actuary Department (GAD);

(ii) to note that the outcome of the review by GAD would be presented to this Committee when the work has been completed.

10. **Minutes of Pension Board - 12 March 2018**

RESOLVED:

That the minutes of Pension Board of 12 March 2018 be noted.

11. **Any other urgent business**

None.

12. **Exclusion of Press and Public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the report to be considered contained the following category of exempt information as specified in the Local Government (Access to Information Act) 1972, namely;

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

13. **Investment Strategy Review**

Members considered the report which presented the analysis and results of the investment review carried out by Hymans Robertson. Mr. Ravinder Jassar (Head of Finance) advised members that the review followed on from the Fund's 2016 Actuarial Valuation, the purpose of which 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.

Mr. William Marshall (Partner) and Ms. Caoimhe Bain (Associate Investment Consultant), representatives of Hymans Robertson gave a detailed slide presentation to the Sub-Committee and responded to questions raised by members. The presentation broadly set out to establish a set of Investment Beliefs that would support the long term strategic approach of the Pension Fund's Sub-Committee, enabling members to gain a broader understanding of the risk/return dynamics of the Fund's investment strategy, so as to ensure that the strategy remained fit for purpose in supporting the Fund's long term objectives. Mr Marshall also highlighted the medium term agenda and timetable on how the Fund might comply with the requirement to pool its assets, and to consider a process for mapping the existing portfolio across to the London CIV pool.

RESOLVED:

(i) that the outcome of the investment review contained within Appendix 1 to the report be noted;

(ii) that the following changes to the investment strategy and amendment to the Investment Strategy Statement be agreed;
- Agree to introduce an investment beliefs statement.
- Switch a proportion of the Fund's growth assets to income assets, such that the former has a target allocation of 60% over the medium-term and the latter a target allocation of 25%. This switch should take place gradually (e.g. 1-3 years).
- Within growth assets, consider removing the allocation to small cap equities and private equity and recommended that a more regionally diversified approach is taken to global equities, by reducing the

Fund's UK equity exposure and introducing an allocation to emerging markets. It is also recommended that further training take place on alternative forms of indexation.

- Within income oriented assets, seek to add to the allocation to infrastructure and consider other income oriented asset classes and as an interim measure, recommended that the diversified growth allocation be used as a route for diversifying the Fund's assets.
- Within protection oriented assets, it is recommended that the target allocation be reduced to 15% of Fund assets (by removing the 1% allocation to cash). It is also recommended that a proportion of this mandate be managed passively, with the remainder managed in a multi-asset credit fund.

The meeting closed at 9.25 pm

S CHOUDHARY
Chair

Brent	**Pension Fund Sub-Committee** 6 November 2018
	Report from the Chief Finance Officer

Proposed adoption of the new Investment Strategy

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Two: • Investment beliefs • Mapping table
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer Conrad.Hall@brent.gov.uk Tel. 0208 937 6528 Ravinder Jassar, Head of Finance Ravinder.Jassar@brent.gov.uk Tel. 0208 937 1487

1.0 Purpose of the Report

1.1 This report updates the committee on the further work undertaken since the presentation of the investment review in June 2018 and the decisions now proposed to implement the strategy over the short to medium term.

2.0 Recommendation(s)

2.1 Approves the Investment Beliefs as set out in Appendix A.

2.2 Approves the proposed target and interim asset allocation as set out in Appendix B.

2.3 Delegates authority to the Chief Finance Officer to sell holdings that are not consistent with the new strategy and to acquire new holdings. This includes the following:

2.3.1 To sell the Janus Henderson Total Return Bond and buy passive longer dated gilts with BlackRock and the London CIV Multi Asset Credit Fund, utilising some of the available cash held for investment (as set out in section five);

2.3.2 To sell Janus Henderson Small caps UK equities mandate (as set out in section seven);

2.3.3 To hold a more regionally diversified approach to global equities, by reducing the Fund's UK equity exposure and introducing an allocation to emerging markets (as set out in section four); and

2.3.4 To utilise part of the current cash balance available for investment in the interim while suitable investments become available to achieve the proposed Investment Strategy (as set out in section seven).

3.0 Background

3.1 The primary role of the Pensions Sub Committee is the strategic management of the assets of the Fund to ensure it is in a position to meet benefit payments as they fall due and to reach a position of full funding.

3.2 As at the last valuation in 2016, the funding position of the Fund was low, at 55%, with assets of £676m and liabilities of £1.238m. In order to ensure that the deficit does not increase, the assets of the Fund need to increase faster than the increase in liabilities. The objective to reach a position of full funding therefore has a significant effect on the investment strategy, where a large proportion of the asset allocation is weighted towards relatively higher risk and higher growth assets, in order to generate superior returns and growth in the long term, above other protection and liability matching assets, such as government bonds.

3.3 In light of the above, and other key regulatory changes within the LGPS such as asset pooling, the committee agreed in November 2017 to commission a project to review its investment strategy with the following objectives:

- To establish a set of Investment Beliefs that will support the long term strategic approach of the Pension Fund's Sub-Committee.
- To gain a broader understanding of the risk/return dynamics of the Fund's investment strategy and to ensure that the strategy remains fit for purpose in supporting the Fund's long term objectives.
- To set a medium term agenda and timetable on how the Fund might comply with the requirement to pool its assets, and to consider a process for mapping the existing portfolio across to the London CIV pool.

3.4 In June 2018, members were presented with the outcome of the strategy review, alongside a set of investment beliefs shaped by the committee. Well run pension funds tend to have a set of clearly defined investment beliefs that helps to clarify how they have translated their objectives into their underlying investment strategy. The investment beliefs are attached at Appendix A and it is intended that these beliefs are published alongside the investment strategy statement.

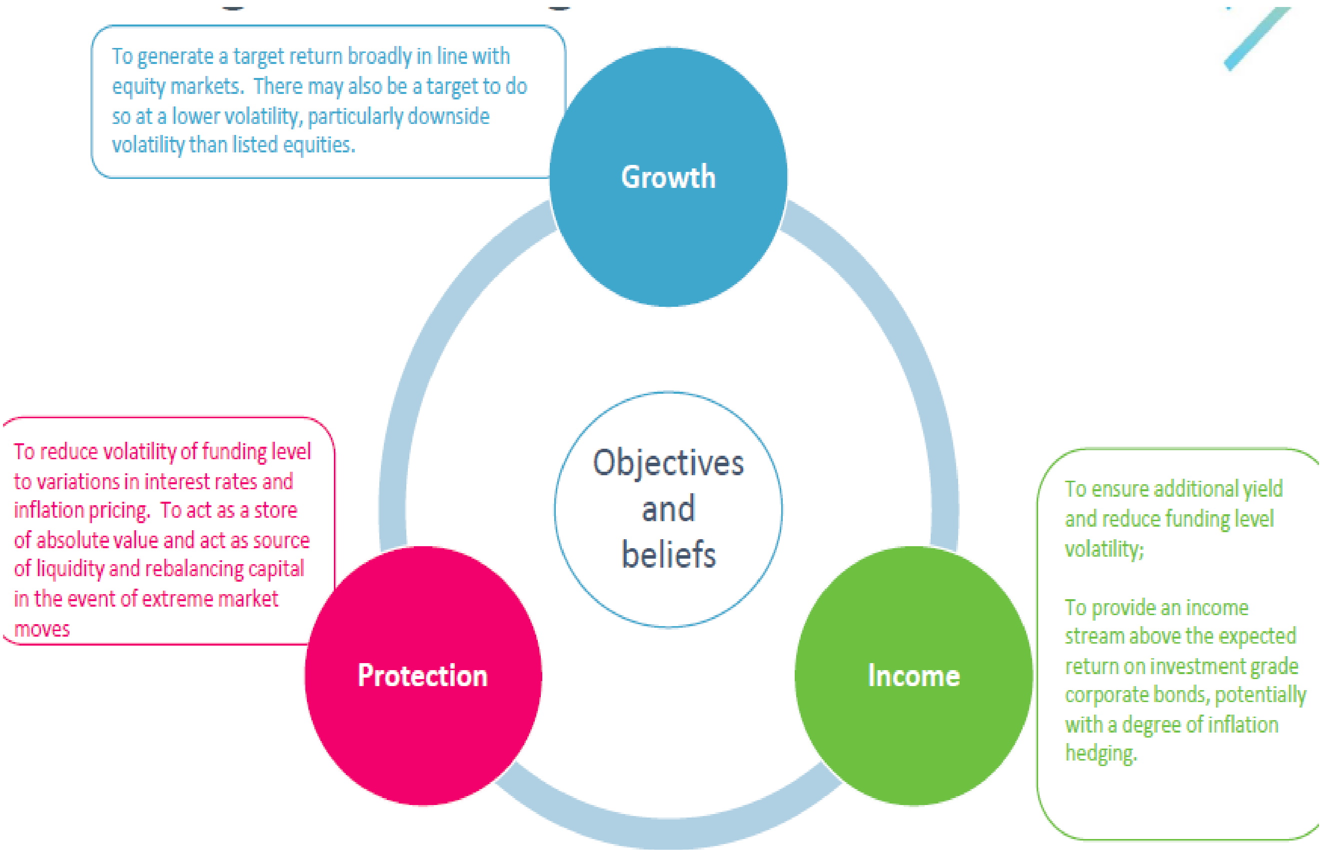
3.5 The strategy review included carrying out asset liability modelling to test the probability (and associated risks) of the Fund's current investment strategy achieving the long-term objectives. The current strategy's results were also compared with other investment strategies. The next stage of the review focused on the underlying components of the **Growth, Income and Protection** elements of the strategy, in particular testing these against the Fund's implicit investment beliefs. The results of the review highlighted that:

- a more diversified investment strategy maybe be more appropriate from an expected risk and return perspective;

- the move from the current strategy to the more diversified strategy should take place over time, taking into account the availability of suitable investment opportunities from the London CIV, the scope to access private markets, transition costs and the current market environment; and

- Appendix B provides a mapping table to show the previous asset allocation and how, over time, the proposed asset allocation will be achieved.

3.6 The graphic below sets out the strategic building blocks of the proposed asset allocation:



3.7 In defining the building blocks described above the proposed asset allocation is shown below compared to the current asset allocation.

	Current strategic allocation	Potential alternative (over medium-term)
Growth (Equities/DGF)	76%	60%
Income (Yield)	8%	25%
Protection (Hedging)	16%	15%

4.0 Growth assets

"To ensure additional yield and reduce funding level volatility. To provide an income stream above the expected return on investment grade corporate bonds, potentially with a degree of inflation hedging"

4.1 In the recent strategy review it was recommended that the Fund adopts a 45% target allocation to listed equities. It was also recommended that the geographical allocation of this equity allocation is considered.

4.2 The Fund's growth assets are dominated by listed Equities and Diversified Growth funds. The Fund also includes allocations to Small Caps and Private

Equity. This is contrary to the Investment Beliefs set out in this report, in terms of governance and passive management. Therefore it is recommended that these allocations are removed from the Fund's Investment Strategy (for Private Equity this will take time as the existing investments run-off).

4.3 The Fund's regional listed equity allocation currently has a notable bias toward UK equities and no exposure to emerging markets. As at June 2018, UK equities accounted for around 6% of the overall global equity market whereas emerging markets accounted for around 10%. In order to gain exposure to returns generated in emerging markets, as well as considering diversification as one of the key investment beliefs of the Fund, it is recommended that a more regionally diversified approach is taken to equities by (in the first instance) reducing the UK equity exposure by removing the existing Henderson UK small cap equity mandate and investing the proceeds in emerging markets.

4.4 The current listed Equity split is one third UK and two thirds developed market equities. The recommended split (as discussed in 4.2 above) would change this to broadly 25% UK, 66% Developed and 9% Emerging Market Equities and be in line with the Investment Belief on the need for diversification. The impact of this change would be a c.0.67% p.a. saving on the annual investment management fee (c£220k p.a. based on the current mandate size and assuming emerging markets are managed passively). Based on the information provided by the managers, a one-off cost of change of c£160k is expected.

4.5 In terms of Active vs Passive for Equities, given the desire to minimise governance, it is recommended to continue with the current strategy of passive management for Listed Equities as this is most aligned to the Fund's beliefs. However, with regards to emerging markets, these markets are typically less regulated and can be volatile and unpredictable.

4.6 Emerging markets include Chinese listed state owned enterprises with complicated ownership structures that offer foreign minority shareholders little or no legal protection. This state control can sometimes lead to poor outcomes for shareholders. One way of limiting exposure to state owned enterprises is to invest in an actively managed fund that avoids mimicking the index and invests selectively. However these funds are typically more expensive than passive trackers.

4.7 If there is a strong view of adding active management to the portfolio, then Emerging Market Equities is an area to consider this, given the reduced transparency and perceived lower efficiency in this part of the market. If the Committee agree to invest passively in Emerging Market Equities, Blackrock could be used in order to diversify away from LGIM. Otherwise, an active option with the LCIV is available for consideration, which is managed by Janus Henderson.

4.8 It is anticipated the regional diversification within the listed Equity portfolio will be discussed further during 2019, alongside potential other aspects relating to the Equity mandate, for example, environmental, social and governance

("ESG") benchmarked funds. Considering this move to more global diversified and ESG benchmarks in tandem will reduce potential transition costs.

5.0 Protection assets

"To reduce volatility of funding level to variations in interest rates and inflation pricing. To act as a store of absolute value and act as source of liquidity and rebalancing capital in the event of extreme market moves"

5.1 At present the only fixed income mandate within the Fund is with Janus Henderson's Total Return Bond (TRB). Brent purchased the TRB in 2012 and as at September 2018 it has achieved returns of 3.01% gross of fees since inception. The three year rolling return is 2.68% and five year return is 2.37%. The objective of the fund is to achieve a return within a range of 3-5% p.a., gross of fees. As reported to the committee in June 2018, following a procurement process of fixed income providers, Janus Henderson have not been put forward to be on the London CIV platform and therefore the TRB will not be transitioning to the London CIV. As a result of this, together with performance not meeting the Fund's expectations, the committee is asked to consider selling the TRB.

5.2 The investment review has recommended that the current target allocation of 15% to Fixed Income assets is retained, with 10% managed passively in government bonds and the remaining 5% managed in a Multi Asset Credit fund. The former is aligned to the Fund's beliefs in respect of risk and return being considered relative to liabilities, it is also low cost and provides a source of capital preservation and liquidity. With regards to Multi Asset Credit, these funds typically invest across a range of credit opportunities including high yield bonds, corporate bonds and asset backed bonds to deliver risk adjusted returns in a diversified way. It is considered a defensive investment choice particularly in times of rising interest rates.

5.3 With regards to the passive bond fund mandate, the London CIV have LGIM and BlackRock products under their oversight on a reduced fee basis. Whilst products will be reviewed with both fund managers as part of our due diligence, there is a preference for this mandate to be managed by BlackRock given the significant amount of mandates already being managed by LGIM for Brent (c.40% of passive UK and global equities). Investing with BlackRock therefore should provide some diversification by manager, and avoid greater concentration of fund assets with LGIM.

5.4 There is a preference towards longer dated UK government bonds for the passive bond mandate. The recommendation is to invest in BlackRock's Over 15 year gilt fund. An investment of this nature can be thought of a portfolio insurance for the Fund for the following reasons:

- Nominal gilts tends to act a strong hedge for periods of slower economic growth;
- They should perform strongly in an environment when the valuation of liabilities is increasing due to low yields; and

- These assets are highly liquid and low cost which provides flexibility, most notably, at time of market stress.

5.5 London CIV launched a Multi Asset Credit fund (MAC) earlier this year and so far has secured the investment of £600m from seven London Local Authorities (LLAs). The fund will initially invest with the CQS Credit Multi Asset fund. The aim of this fund is to utilise a range of long term strategies across a range of Fixed Income strategies to generate returns during different market cycles. The fund generates returns in conditions where interest rates are rising through holdings in loans and asset backed securities. In terms of both the number of boroughs invested and the assets raised for the fund, this is one of LCIV's most successful fund launches to date.

5.6 MAC mandates are now commonly used by institutional investors and give exposure to debt such as Loans, Convertible bonds, Asset-backed securities, and Higher Yielding and Investment Grade Corporate bonds. These asset classes tend to offer a greater yield and better risk-adjusted returns to investors than government bonds when held in a diversified portfolio. A MAC investment, when held alongside the passive government bond mandate, should therefore help increase expected return and diversify overall returns generated by the fixed income allocation.

5.7 The fees on the existing Janus Henderson TRB mandate amount to c0.35% pa and it is proposed to replace this with the passive government bond mandate and the MAC fund which will have a weighted average fee of c0.18% pa. Based on the information provided by the manager, there may be a one off fee of c£130,000 in making this transaction.

5.8 The other available bond options via the London CIV that could be considered are limited at present. The London CIV is currently seeking commitments for a Global Bonds and Global Liquid Loans sub-fund but as we understand, have no investors as yet. As the MAC fund via the London CIV already has seven LLAs invested and offers a broader range of asset class exposure, it is reasonable to invest in the MAC fund, rather than wait for further options to made available by the London CIV.

6.0 Income assets

"To ensure additional yield and reduce funding level volatility. To provide an income stream above the expected return on investment grade corporate bonds, potentially with a degree of inflation hedging"

6.1 The investment review recommended that the strategic direction of travel is to increase allocation to income assets and that the Fund add to build up its existing infrastructure exposure, but also consider other yielding assets such as property. In testing this strategy against the Fund's investment beliefs, there are clear links with regards to diversification (infrastructure provides this) and achieving risk and return relative to liabilities in terms of holding long-term real assets.

6.2 The target allocation has been recommended to increase from 8% to 15% and the current actual allocation is 4% (3% Alinda and 1% Capital Dynamics). There is currently £16.5m of undrawn capital commitments with regards to these mandates, however, all other things being equal, if all of this was immediately called upon the actual allocation would increase to 5%.

6.3 The London CIV is expected to have an infrastructure funds available for investment by the end of 2018 and will be holding an Infrastructure Forum in November 2018 where further information will be provided. It is envisaged that decisions on investment in infrastructure will be made at the next committee meeting in February 2019 in order to plan towards achieving the 15% over time.

6.4 The investment review also recommended a 10% allocation to property, from having no allocation previously. The fund had legacy investments with AVIVA which have almost entirely been sold.

6.5 The London CIV will have two property funds available for investment in early 2019. There will be a UK property fund (both residential and commercial) and a global property fund. It is envisaged that decisions in such yielding assets, i.e. property, will take place over the course of 2019 and as the CIV's fund offering evolves.

7.0 Cash Holdings

7.1 There is a current cash balance of £108.5m which has been mainly generated from distributions from mature funds (Capital Dynamics, Alinda II and AVIVA) which are approaching the end of their terms and are therefore returning cash which has been previously invested. Although part of this cash balance is being held for outstanding capital commitments and the circa £31m being held for the asset transfer in relation to the College of North West London, there remains a large balance which is becoming a drag on performance.

7.2 Officers have carried out a cash flow analysis in respect of commitments due over the next year (e.g. member benefits) and income (e.g. employer and employee contributions and distributions) in order to estimate the proportion of the cash that can be used for investment. This is currently estimated at £60m.

7.3 Therefore, the following options (or combination of options) are proposed in order to utilise part of the cash which is not immediately required for existing commitments (fees, cost and impact on expected returns and risks will be considered with each option).

7.4 **Option 1:** As noted in more detail in section five above, there is a proposal to sell the Janus Henderson Total Return Bond (£92m as at 30 September 2018) and purchase BlackRock Passive Gilts and LCIV MAC.

At 30 June 2018, the Janus Henderson Fund was c10.6% of total assets. Option 1 would be to take the Fund closer to its target allocation of 15% of total assets. This would involve, in total, £77m (9% of the current size of the Fund) being invested in BlackRock Passive gilts and £35m (4% of the current size of the Fund) in LCIV MAC. This option would utilise a significant proportion (£20m) of the cash available for investment.

7.5 **Option 2:** There is a long-term objective to reduce the Fund's target exposure to DGFs to 15% of total assets and build up the Fund's exposure to income assets. However, it will take considerable time (years) to build up allocations to income assets, in the interim it is expected that the Fund will have a higher than target allocation to DGFs which will be reduced gradually as the income allocation increases. Investing a proportion of the cash (c£40m) in the DGFs, will provide the Fund with a balanced exposure to return-seeking assets while the London CIV's investments in Income assets (Infrastructure and Property) become available in early 2019. This option will be the most expensive (potentially one off cost of 0.3% on investment, and annual management fee of c0.47%-0.725% depending on the manager), but offer the greatest expected returns.

7.6 As at 30 June 2018, the Baillie Gifford DGF mandate has achieved returns of 7.6% since inception (15/02/2016) and the one year performance is 1.9%. Likewise, the Ruffer DGF has achieved returns of 6.1% since inception (21/06/2016) and the one year performance is 1.6%. Clearly, the Baillie Gifford fund has achieved superior returns (net of fees).

7.7 **Option 3:** As in option 1, allocate further cash into Protection assets (Fixed Income). This option will increase the asset allocation to 17% (2% above the target) however as this is a liquid asset with low fees, part of the asset can be sold off when Income assets (Infrastructure and Property) become available for investment through the LCIV (described in section 6 above).

7.8 The recommendations by way of this report are options 1 and 2. In summary this is to invest £40m into Growth assets via the existing DGF manager, Baillie Gifford, and £20m into Protection assets via the London CIV. This will achieve the goal of getting closer to the target allocation in respect of Protection assets as well as utilising a large proportion of the cash currently available for investment into DGF's to provide the Fund with a balanced exposure to return-seeking assets while investments within Income assets become available.

7.9 As noted in section 4.2, it is proposed to sell the Janus Henderson Small caps UK equities fund as it does not align to the Fund's investment beliefs. However, selling this holding in the short term will only add to the large cash balance noted above in the short term.

7.10 That said, officers have recently been notified of a planned change in management structure by the fund manager, effective from 1 November 2018. The plan is to bring the management of the Janus Henderson UK and Irish Smaller Companies fund in house. This may lead to significant transition costs as assets are liquidated and new ones acquired. Therefore, in order to avoid incurring these transition costs it is recommended to sell as soon as possible.

7.11 In line with the options described above, the proceeds from this sale could be used to invest in protection assets (as described in option 3, above) or growth assets (as described in option 2, above). Alternatively, the proceeds could be used to fund the proposed allocation to Emerging Markets, as described in section 4.7. If the recommendation to sell the mandate is agreed, it is expected that cash will be returned in early 2019 where decisions on utilising the cash can be discussed at the next committee meeting in February 2019.

8.0 Financial Implications

8.1 These are set out throughout the report

9.0 Legal Implications

9.1 Not applicable.

10.0 Equality Implications

10.1 Not applicable.

11.0 Consultation with Ward Members and Stakeholders

11.1 Not applicable.

12.0 Human Resources

12.1 Not applicable.

<u>Report sign off:</u>

CONRAD HALL
Chief Finance Officer
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Investment beliefs

Clear and well defined objectives are essential to achieve future success - the Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection - the Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters. The Committee is aware that there is need to take investment risk in order to generate a sufficient level of return.

Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy – the Committee believes that as the funding position of the Fund improves, the level of risk taken by the Fund should reduce as appropriate i.e. only take as much risk as necessary. The Committee believes that there exists a relationship between the level of investment risk taken and the rate of expected investment return. In reducing risk, the Fund's expected return would typically also reduce.

Long term investing provides opportunities for enhancing returns - As a long-term investor it is important that the Fund acts as an asset owner. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid or may be subject to higher levels of volatility (a premium return is required for any such investments).

Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments - the Committee recognises that ESG issues can impact the Fund's returns. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations and ESG is integrated into strategic considerations.

Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes - the Committee recognises that environmental issues can impact the Fund's returns. The Committee aims to be aware of, and monitor, financially material environmental-related risks and issues through the Fund's investment managers and advisors.

Equities are expected to generate superior long term returns - the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. However the Committee also recognise that equities can be highly volatile over the short-term.

Diversification reduces the overall volatility of the Fund's asset returns - the Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. However, the Committee also recognise that there is scope to over diversify and that any desire to diversify needs to be aligned to the Fund's governance arrangements.

Passive management has a role to play in the Fund's structure - the Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance. There is a belief that passive management is most suitable for markets that are deemed as being more efficient such as developed market equities.

Active management can add value but is not guaranteed - the Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. There is a belief that active management is most suitable for markets that are deemed as being less efficient e.g. emerging market equities, specialist markets e.g. infrastructure or where views on the relative value of different asset classes are a targeted source of value e.g. DGF mandates.

Private markets can offer opportunities - Private markets can offer opportunities and give higher return due to higher illiquidity premia. However it is recognised that private markets can be more expensive, less transparent (e.g. fees and drivers of return), increase the Fund's governance burden and require ongoing maintenance to achieve target exposure. Such factors must be taken into account when considering such an allocation.

Choice of benchmark index matters - the Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

Rebalancing policies are important – the Committee recognises that rebalancing the Fund's assets towards the strategic asset allocation is important in achieving the Fund's longer term objectives, in particular following a period of strong or weak market performance.

Fees and transaction costs matter -. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. It also does not seek to move in and out of investments regularly due to the cost drag. The Committee also seek to have transparency on the fees that it is paying to its providers.

Governance "budget" matters – The Committee recognises that the resources (and time) involved in deciding upon (and implementing) an investment strategy and structure play a part in any investment decisions made. A low governance approach to accessing markets is likely to be preferred if it can offer similar risk adjusted returns to alternative approaches.

The London CIV is the Fund's preferred approach to implementation – the Committee recognises the potential benefits of LGPS pooling. There preferred route is to implement their investment strategy via the London CIV, subject to carrying out suitable due diligence on the CIV's investment offering.

Investment project – mapping

This table is addressed to the Pension Fund Sub Committee (“the Committee” of the Brent Pension Fund. It supports the presentations we give to the Committee on 26 June.

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Proposed Target Asset Allocation (%)	Comment
Private Equity	Fund of Funds	Capital Dynamics	64.5	7.8	10.0	5.0	0.0	Allocation gradually being unwound. No further commitments to be made. Further work to get indication of timescale for run-off. Continue to include exposure in total equity allocation.
	Fund of Funds	Yorkshire	0.5	0.1				
Equities	UK Passive	LGIM (CIV)	108.4	13.1	45.0	45.0	45.0	Adjust the benchmark to have lower UK allocation and add a proportion of emerging markets. Redeem small cap equities and proceeds invested into passive mandate
	Overseas Passive	LGIM (CIV)	274.3	33.0				
	Small-Cap	Henderson	31.6	3.8				
Diversified Growth	Multi-asset	Baillie Gifford (CIV)	75.5	9.1	21.0	18.0	15.0	Although DGFs are part of Fund’s growth exposure they also provide a degree of exposure to income and protection assets. They can act as “balancing” item for strategic allocation during the period as the income exposure is being built up.
	Multi-asset	Ruffer (CIV)	48.8	5.9				
Total growth	-	-	**603.6**	**72.8**	**76.0**	**68.0**	**60.0**	

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Final Proposed Target Asset Allocation (%)	Comment
Infrastructure	Direct	Alinda	24.9	3.0	8.0	12.0	15.0	Priority is to work towards current target. Investigate scope to commit additional monies e.g. working with existing managers and CIV. Also potential use of secondary market.
	Funds+ Direct	Capital Dynamics	8.4	1.0				
Property	Europe fund-of-funds	Aviva	2.1	0.2	0.0	0.0	0.0	Being wound down. No further commitments
New income mandate	One or more	TBC	0.0	0.0	0.0	5.0	10.0	Potential to add core UK property or other additional income fund via secondary market as initial step
Total income	**-**	**-**	**35.4**	**4.2**	**8.0**	**17.0**	**25.0**	
Fixed Income	Active	Henderson – Total Return	94.1	11.3	15.0	0.0	0.0	Redeem Henderson Fund, not going to be part of CIV.
Fixed Income	Active/ Passive	Recommend LGIM/CIV	-	-	-	15.0	15.0	Recommendation is for proportion c.10% in passive longer duration bonds plus c 5% allocation to multi-asset credit
Cash	Short-dated	In-house	97.0	11.7	1.0	-	-	Remove 1% strategic allocation to cash
Protection	**-**	**-**	**191.1**	**23.0**	**16.0**	**15.0**	**15.0**	**-**
TOTAL	**-**	**-**	**830.2**	**100.0**	**100.0**	**100.0**	**100.0**	-

Prepared by:-

William Marshall

Partner

17 October 2018

For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Brent	**Pension Fund Sub-Committee** 6 November 2018
	Report from the Chief Finance Officer

Responsible Investment Policy

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One: • London CIV – Responsible Investment Policy
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer Conrad.Hall@brent.gov.uk Tel. 0208 937 6528 Ravinder Jassar, Head of Finance Ravinder.Jassar@brent.gov.uk Tel. 0208 937 1487

1.0 Purpose of the Report

1.1 This report presents the Responsible Investment Policy of the London CIV. The purpose of the policy is to detail the approach that the London CIV aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

2.0 Recommendation(s)

2.1 The Committee is asked to note and support the Responsible Investment Policy.

3.0 Overview

3.1 This framework defines the commitment of the London CIV to responsible investment. It recognises its clients have a fiduciary duty to act in the best long-term interests of their members. To do so properly requires the London CIV to recognise that environmental, social and governance issues can positively and negatively impact on the Fund Solutions provided by the Pool which should be considered in investment strategies and decision-making processes.

3.2 The London CIV has considered the guidance provided in the Ministry of Housing Communities and Local Government ('MHCLG') paper 'Local Government Pension Scheme: Investment Reform and Criteria and Guidance' in the establishing this policy

3.2 In summary the Responsible Investment policy focuses on engagement and accountability. The core of the policy is to be an engaged investor, exercising the rights of ownership and holding to account those who manage our investments. The policy stops short of blanket exclusion and divestment as tools of responsible investment. It provides a framework for developing policies for engaging on specific topics.

3.3 The policy is considered to be a "best practice" policy, providing an effective influencing and engagement framework. In particular it provides a framework for oversight of investment managers.

4.0 Key Beliefs

4.1 The key beliefs of the London CIV as set out in the Policy are as follows:

- We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
- We believe that communication and engagement are integral to responsible investment.
- We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
- We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
- Sometimes assets will be sold over ESG issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
- We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
- We believe our voice for responsible ownership is loudest when we own an asset.

5.0 Guiding Principles

5.1 The Guiding Principles of the London CIV as set out in the Policy are:

- We should set out principles to which we aspire on subjects that all shareholders can agree:

  - Human Rights
  - Human Slavery
  - Rule of law
  - Environmental transparency
  - Equality
  - Corporate Governance

- We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
- We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
- We will ensure that all investment managers operate their RI policies effectively and hold them to account.
- An Investment Managers inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
- We will produce an Annual RI report for the London CIV.

6.0 Financial Implications

6.1 Not applicable.

7.0 Legal Implications

7.1 Not applicable.

8.0 Equality Implications

8.1 Not applicable.

9.0 Consultation with Ward Members and Stakeholders

9.1 Not applicable.

10.0 Human Resources

10.1 Not applicable.

Report sign off:

CONRAD HALL
Chief Finance Officer
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RESPONSIBLE INVESTMENT POLICY

RESPONSIBLE INVESTMENT POLICY

1) INTRODUCTION

This framework defines the commitment of London LGPS CIV Limited ("London CIV" or 'the Pool') to responsible investment ('RI'). Its purpose is to detail the approach that the Pool aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

We recognise that our clients have a fiduciary duty to act in the best long-term interests of their members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund Solutions provided by the Pool which should be considered in our investment strategies and decision-making processes.

London CIV has considered the guidance provided in the Ministry of Housing Communities and Local Government ('MHCLG') paper 'Local Government Pension Scheme: Investment Reform and Criteria and Guidance' in the establishing of this policy.

1.1 BELIEFS AND GUIDING PRINCIPLES

The Pool's RI beliefs and guiding principles underpin its RI approach and are described below.

1.1.1 Beliefs

a) We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
b) We believe that communication and engagement are integral to responsible investment.
c) We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
d) We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
e) Sometimes assets will be sold over ESG issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
f) We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
g) We believe our voice for responsible ownership is loudest when we own an asset.

1.1.2 Guiding Principles

a) We should set out principles to which we aspire on subjects that all shareholders can agree, for example:
    - Human rights
    - Human slavery
    - Cluster munitions
    - Rule of law
    - Equality
    - Corporate governance
    - Sustainability
    - Climate change
    - Fossil fuel risk
b) We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
c) We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
d) We will ensure that all investment managers operate their RI policies effectively and hold them to account.
e) An Investment Manager's inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
f) We will produce an Annual RI report for the London CIV.

g) The Pool also requires investment managers to vote in accordance with the Local Authority Pension Fund Forum ("LAPFF"), other than in exceptional cases, in which case they should explain their reasons for not doing so, preferably in advance of the meeting. This is monitored on a regular basis.

1.1.3 ESG Integration

The Pool believes that

i) Investing responsibly and engaging as sustainable long term investors reduces risk over time and may positively impact the returns. The London CIV must encourage the underlying funds and companies to consider the long-term impacts of their actions.
ii) A long time horizon requires that the team consider the impacts of its actions on future generations.
iii) Effective management of financially material ESG risks should support the Pool's requirement to protect returns over the long term.

The Pool considers RI to be relevant to investment performance across asset classes.

The Pool recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

It is supportive of the UK Stewardship Code and is a Tier 1 signatory to the Code. The Pool encourages investment managers to sign up to the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) where appropriate.

1.1.4 Engagement versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.

There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Pool has a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance stakeholder value, influence that would be lost through a divestment approach. The Pool extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing their RI approach.

The Pool believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. This extends to other LGPS pools and other public and private investors.

1.1.5 Fees and Incentives

Managing fees and costs matter in low return environments. Fee arrangements with external fund managers – as well as the remuneration policies of investee companies – should be aligned with the participating funds' long-term interests.

The Pool recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment.

1.1.6 An Evolving and Flexible Approach

The Pool recognises that RI in the market is changing. This framework will remain flexible and will evolve over time to reflect evolving market developments.

1.2 OVERSIGHT AND APPLICATION

This policy will be reviewed at a minimum annually, or whenever they or the Pool proposes revised RI policies and procedure. The Chief Investment Officer is responsible for policy implementation.

1.3 CONTENT

The RI framework is divided into sections:

- How ESG is interpreted by Asset Class
- What the Pool expects of itself, companies and investment managers with respect to RI.
- How the RI beliefs and guiding principles are implemented in practice.

Definitions are provided in Section 5.

2) ESG BY ASSET TYPE

2.1 LISTED EQUITIES

Responsible investment allows listed equity investors to make better informed investment decisions by integrating all material factors, including material ESG factors, into investment analysis, valuations and decisions. Investment Managers should be voting all proxies and using their influence as owners of companies to ensure shareholder valuation is maximised through considering the impact of ESG factors (both positive and negative) on the value of the organisation.

2.2 FIXED INCOME

ESG analysis provides fixed income investors with additional insight into issuer creditworthiness. Whilst governance influence over fixed income issuers can be less than in equity ownership, investment managers taking sizable positions in capital structures can influence behaviours including ESG factors.

2.3 PRIVATE EQUITY

Responsible investment is naturally aligned to private equity through its long-term investment horizon and stewardship-based style. The Pool will incorporate ESG practices for the selecting, appointing and monitoring of investment managers and direct/co-invest portfolio companies.

2.4 PROPERTY

Property is a long term asset class where ESG is centred on delivering sustainable, long term performance by considering ESG factors within investment decision-making and ownership practices, providing greater insight into potential risks and opportunities that will impact the value, performance and reputation of the investment.

2.5 INFRASTRUCTURE

Long-term infrastructure investors should consider a broad range of possible ESG issues that infrastructure investments might face over the course of the assets' life, in the analysis and assessment of opportunities, and in the ongoing management of investments.

2.6 COMMODITIES

Responsible investment in commodities allows investors to address risks such as: labour rights, human rights, land/resource rights, waste, water scarcity and pollution levels in assets, such as forests and agricultural land, and companies throughout the supply chain. Applying responsible investment to investments in commodity derivatives can address systemic issues such as volatile prices and unstable markets.

2.7 OTHER ALTERNATIVES

The pool will working with investors, investment managers, industry associations and service providers to incorporate ESG factors into the investment decision-making process of all other alternative investments.

2.8 ENVIRONMENTAL & SOCIAL THEMED INVESTING

Themed investing allows investors to address ESG issues by investing in specific solutions to them, such as renewable energy, waste and water management, sustainable forestry and agriculture, health products and inclusive finance.

3) RI EXPECTATIONS

3.1 POOL

3.1.1 General

The Pool aims to:

1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Pool will monitor:

- ESG issues in relation to internally managed investments;
- The extent to which the external managers incorporate ESG issues into their investment processes; and
- Hold external managers to account for improvement in their ESG performance over a reasonable timeframe.

2) Seek to use pooling to facilitate implementation of the environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area. It will make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:

- Hold constructive dialogue with listed companies;
- Encourage the disclosure by companies of ESG issues; and
- Participate in the development of public policy on ESG issues.

3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of participating funds' beneficiaries first.

4) Keep our stakeholders aware of our RI activities through:

- making its RI policy documents public, e.g., voting policies, RI policy;
- providing a summary of the Pool's RI activities for publication in participating funds' annual reports;

- publishing aggregate voting and company engagement statistics on a quarterly basis

3.1.2 Fiduciary Responsibility

The London CIV acknowledges a need to set out the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. This extends to the need to monitor environmental, social and corporate governance policies to provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

However the London CIV also appreciates, as the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, that the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise. The report went on to state that although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

As indicated in the DCLG document, the Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy. This guidance has since been challenged on legal grounds and is currently under review. The London CIV policy will reflect the Government guidelines when this has been finalised.

London CIV acknowledges this fiduciary responsibility of its members and will reflect this obligation in the investment selection process.

3.1.3 Carbon Footprint & Climate Change

The Pool aims to, either directly or through specialist service providers:

- Encourage improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives;
- Review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- Contribute to public policy with regard to climate change as it relates to investment considerations;
- Increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and
- Keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes

3.2 COMPANIES

3.2.1 Governance Codes

The Pool expects UK companies to adhere to the UK Corporate Governance Code on a comply-or-explain basis. Further, the Pool has bespoke UK corporate governance guidelines which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Pool expects companies outside the UK to adhere to international voting principles, recognising local application and development.

3.2.1 Environmental and Social Risks

The Pool expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company.

There are aspects of environmental and social reporting on which the Pool places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies. This is narrative reporting which:

- Sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- Contains a forward looking perspective; and
- Describes the actions of the board in mitigating these risks.

In terms of the specific environmental and social issues to focus upon, the Pool takes a case-by-case sector based approach.

3.3 INVESTMENT MANAGERS

The Pool expects company directors and asset managers to adopt measures to promote both stewardship and long-term decision making. In particular asset managers can contribute more to the performance of business through greater involvement in the companies in which they invest. Adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.3.1 Due Diligence

For each appropriate asset class, the Pool will ensure that managers selected for appointment have:

- An ESG Policy, appropriate policy addressing ESG issues.
- Where relevant managers should be demonstrating active ownership policies or equivalent, articulating how ESG factors are integrated into their investment process. This may include research, active ownership activities or other sources.
- Case studies or examples of where ESG issues have influenced an investment decision
- Where appropriate, information on the process for integrating any third party ESG data into their company financial models, investment strategies and portfolio construction
- RI reporting format
- Whether they are a signatory of the UN backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

3.3.2 Appointment

The Pool assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Pool takes a balanced consideration of all relevant factors including ESG. However, the Pool will pay particular attention to adherence to relevant soft regulatory codes, notably the UK Stewardship Code, depending on the market in which it invests.

In practice, this means the Pool would be willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on ‘engagement versus exclusion’, the Pool believes that there is added value in working with them to improve their approach.

3.3.3 Monitoring and Reporting

Each external fund manager is expected to review their ESG policy on an annual basis.

Managers should report at agreed intervals to the Pool on how their RI activities are contributing to improved long-term risk adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership function are combined to protect and/or enhance shareholder value in the case of equities including
    - How the manager exercised the Pool’s voting rights.
    - Any outcomes arising from the manager’s engagement with companies and their effectiveness.

4) RI IMPLEMENTATION

The Pool’s active ownership approach can be divided into three distinct areas: **voting globally, engagement through partnerships** and **shareholder litigation**. This section briefly outlines the Pool’s processes for each.

4.1 VOTING GLOBALLY

Where practical, the Pool requires managers to vote in every single market in which it invests. The Pool will monitor IMs voting records and will expect that an appropriately critical approach is taken to company proposals.

Reference to the Pool’s voting policies is provided in Section 2.2 under ‘Company Expectations’.

4.1.1 Securities Lending Programme

The Pool does not currently engage in direct securities lending.

4.2 ENGAGEMENT THROUGH PARTNERSHIPS

The Pool uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. Where it is possible and practical to do so, the Pool will engage with the other Pools to maximise the effectiveness and the influence of the LGPS assets as a whole. The Pool’s primary engagement partnerships are highlighted below.

4.2.1 Local Authority Pension Fund Forum

The Pool is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK’s leading collaborative shareholder engagement group encompassing local authority pension funds from across the country. The Pool and its constituent funds are active participants in LAPFF’s engagement programs. Membership of LAPFF provides the Pool with:

1) independent research and advice on the ESG risks of companies to inform further stakeholder engagement;

2) advice on the governance practices of companies;

3) A forum to engage with companies to improve governance practices; and

4) Proxy voting advice on high-priority issues for annual general meetings.

4.2.2 Industry Engagement

In collaboration with other like-minded investors, notably other LGPS investment pools, the Pool may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth. The London CIV is a signatory of the UNPRI. The Pool considers these initiatives on a case-by-case basis.

4.3 SHAREHOLDER LITIGATION

The Pool may hold securities that are the subject of individual and class action securities litigation. There are a number of litigation options available when a company has violated securities laws that result in losses to participating funds.

For US based claims, the options would be to:

- remain in the class action and file proof of claim;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Pool takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Pool becoming actively involved;
- relative size of the Pool's potential losses compared to other organisations;
- likelihood of success; and
- whether the Pool is fully indemnified against costs, expenses, counterclaims and any other losses.

Where external service providers are used for voting, engagement and shareholder litigation, the Head of Equities will be responsible for ensuring that the quality of service provision is kept under regular review, reporting concerns internally and following up with the supplier. This includes verifying that engagement and voting are undertaken in line with London CIV's agreed RI Framework.

5) DEFINITIONS

5.1 RESPONSIBLE INVESTMENT

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. The Pool also supports the PRI's definition of responsible investment which can be found here:

https://www.unpri.org/about/the-six-principles

5.2 ESG

Environmental, social and governance factors which may impact on company performance and therefore investment returns. ESG factors encompass a broad range of issues to potentially consider alongside traditional financial factors when assessing investments. No definitive list of ESG issues exists however some examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.

5.3 GOVERNANCE

The process and principles by which a company or organisation undertakes its business. For the Pool, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

5.4 ACTIVE OWNERSHIP

Refers to the responsibility of the Pool to participate, where appropriate, in the governance decision making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long term sustainable growth.

Brent	**Pension Fund Sub-Committee** 6 November 2018
	Report from the Chief Finance Officer

Quarterly monitoring report on fund activity: Quarter to June 2018

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One
Background Papers:	• Legal & General – June 2018 quarterly report • Northern Trust Performance Report – June 2018 • Websites: https://www.ons.gov.uk
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1. Summary

1.1. This report provides a summary of the Fund's activity during the quarter ended 30 June 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) During the quarter ending 30 June 2018, the Fund increased in value by 5.4% (£44.6m) from £831.1m to £875.8m; an improvement from the reduction in value of the fund of £23.9m in the last quarter.

b) The increase in the value of funds is mainly attributable to the increase in the value of UK and Global Equities; primarily Global Equities with an increase in value of £21.4m.

c) The value of cash being held has also increased by £14m since the last quarter.

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

2. Recommendations

2.1. Members are asked to note the contents of this report and Independent Financial Adviser's investment report to follow.

3. Quarter ending 30 June 2018 Performance

3.1 Table 1 summarises the change in the Council's asset allocation in the quarter ending June 2018.

Table 1: Asset allocation as at 30 June 2018 compared to the target allocation

ASSET CLASS	31/03/2018 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/06/2018 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**94.1**		-1.7	**92.4**	**10.6**	**15.0**	**-4.4**
Equities							
UK - L&G	108.4		9.9	118.3	13.5		
UK Smaller Cos - Henderson	31.6	0.1	2.4	34.1	3.9		
Overseas Developed - L&G	274.3		21.4	295.7	33.8		
Equities - Total	**414.3**	**0.1**	**33.8**	**448.1**	**51.2**	**45.0**	**6.2**
Diversified Growth Fund							
LCIV Baillie Gifford	79.5		-0.9	78.6	9.0		
LCIV Ruffer	48.8		1.1	49.9	5.7		
Total London CIV	**128.3**	**0.0**	**0.2**	**128.5**	**14.7**	**21.0**	**-6.3**
Property							
UK - AVIVA	0.0		0.0	0.0	0.0		
Europe - AVIVA	2.1		-1.4	0.7	0.1		
Property - Total	**2.1**	**0.0**	**-1.4**	**0.7**	**0.1**	**0.0**	**0.1**
Private Equity							
Capital Dynamics	64.5	-4.2	5.1	65.4	7.5		
Yorkshire	0.5	-1.9	1.4	0.1	0.0		
Private Equity Total	**65.1**	**-6.1**	**6.5**	**65.5**	**7.5**	**10.0**	**-2.5**
Infrastructure							
Alinda	24.9	-3.2	-0.3	21.4	2.4		

Capital Dynamics	8.4	0.0	2.1	10.5	1.2		
Infrastructure Total	**33.3**	**-3.2**	**1.9**	**31.9**	**3.6**	**8.0**	**-4.4**
Cash Deposits							
Other/Northern Trust	93.9	**14.4**	0.2	108.5	12.4	**1.0**	**11.4**
Grand Total	**831.1**	**5.2**	**39.5**	**875.8**	**100.0**	**100.0**	**0.0**

3.2 The total Fund value (including contributions) increased by £44.6m in this quarter, compared to a £23.9m decrease in the previous quarter. The main contributory factor to the increase was the significant improvement in the value of Equities which saw a reduction in value of £22.8m in Q1 with a contrasting increase in value of £33.9m this quarter.

3.3 There is a balance of £108.5m 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. Cash is being held for capital commitments in relation to Alinda and Capital Dynamics. Nonetheless, the level of cash balances continue to increase as Capital Dynamics, Alinda II and Avivia distribute investment returns back to the fund. It is expected that as part of the implementation of the new investment strategy, a significant proportion of cash balances will be utilised by the first quarter of 2019. Further explanation on cash balances can be found in section 3.14 below.

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 30 June 2018 compared to the previous quarter.

<u>Table 2: Q2 Investment returns in individual markets compared to benchmark</u>

Investment Category	**RETURNS**						Benchmark/ Index Description
	Qtr Ending 31/03/18			**Qtr Ending 30/06/18**			
	Fund %	**Benchmark %**	**Relative Return %**	**Fund %**	**Benchmark %**	**Relative Return %**	
Fixed Income							
Henderson Total Return Bond Fund	0.1	1.0	-0.9	-1.8	1.0	-2.8	Absolute Return 4% pa
Equities							
UK - Legal & General	-6.9	-6.9	0.0	9.2	9.2	0.0	FTSE All Share
UK - Small Companies Henderson	-6.2	-6.5	0.3	7.7	7.1	0.7	FTSE Small Cap
O'seas Developed - Legal & General	-4.5	-4.5	0.0	7.8	7.8	0.0	FTSE Dev World ex UK
European Property							
Aviva Investors	-21.7	1.9	-23.6	-64.6	2.0	-66.6	IPD All Properties Index
Private Equity							
Capital Dynamics	0.54	1.9	-1.4	8.23	1.9	6.3	Absolute Return 8% pa
Yorkshire Fund Managers	0	1.94	-1.9	0	0	0.0	Absolute Return 8% pa
Infrastructure							
Alinda Capital Partners	-12.4	1.9	-14.3	-0.8	1.9	-2.7	Absolute Return 8% pa
Capital Dynamics	-2.65	1.94	-4.6	25.04	1.9	23.1	

Pooled Multi Asset Baillie Gifford	0.5	1.0	0.5	-1.3	1.0	-2.3	Base Rate + 3.5% pa
Ruffer	-2.6	1.0	-3.6	2.3	1.0	1.3	
Cash	0.1	0	0	0.2	0.12	0.05	Base Rate
Average Total	**-3.7**	**-1.9**	**-1.8**	**5.3**	**4.0**	**1.2**	

3.6 Table 3 shows returns over 3 months, 1 year and 3 years for listed investments compared with their benchmarks. 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 30.06.18		**3 mnths - Jun18** **(%)**	**1 year** **(%)**	**3 years** **(% p.a.)**
Fixed Income	JH Total Return Bond	-1.84	-0.31	2.35
(4% p.a.)	Benchmark	0.99	4.00	4.00
	Relative Return	**-2.83**	**-4.31**	**-1.65**
Equities-UK	LGIM UK	9.21	9.09	9.77
(FTSE All-Share)	Benchmark	9.20	9.02	9.59
	Relative Return	**0.01**	**0.07**	**0.18**
	JH UK Small-Cos	7.73	7.28	6.89
(FTSE Small Cap)	Benchmark	7.05	6.36	9.58
	Relative Return	**0.68**	**0.92**	**-2.69**
Equities-Overseas	LGIM Global ex-UK	7.81	9.93	16.27
(FTSE Dev World ex-UK)	Benchmark	7.84	9.92	16.29
	Relative Return	**-0.03**	**0.01**	**-0.02**
Multi-Asset	Baillie Gifford	-1.3	1.79	4.45
(Base + 3.5%p.a.)	Benchmark	0.99	3.92	3.90
	Relative Return	**-2.29**	**-2.13**	**0.55**
	Ruffer	2.30	1.61	0.00
(Base + 3.5%p.a.)	Benchmark	0.99	3.92	0.00
	Relative Return	**1.31**	**-2.31**	**0.00**

3.7 **Fixed Income**

The Henderson Bond Fund depreciated by £1.7m in Q2. The main reason for the poor performance has been attributed to exposure to emerging market credit.

Emerging market bonds suffered in an environment of a rising US Dollar, concerns about higher US interest rates and increased global trade tensions between US and China.

The table below shows the value of this asset as at the end of the last 5 quarters.

Table 4: Fixed income performance since Q2 2017

ASSET CLASS	31/06/2017 Value (£m)	30/09/2017 Value (£m)	31/12/2017 Value (£m)	31/03/2018 Value (£m)	31/06/2018 Value (£m)
Fixed Income Henderson-Total Return Bond Fund	**92.7**	**93.3**	**94.1**	**94.1**	**92.4**

This fund has been experiencing a generally weak performance due to high volatility in the developed market government bond yields which saw a rise in January and a fall in the second quarter of the year as volatility returned to markets.

There remain 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**

Performance has since turned around for the UK and Overseas Legal & General funds with an increase in asset value of £31.3m in Q2 compared to the last quarter which saw a decrease in value of £20.8m and represented the worst performance since March 2016.

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

Henderson Small Cap also saw an appreciation of £2.4m during the quarter.

Over the three year benchmark which is a normal minimum period over which to consider performance for a long-term investor, equities have performed broadly in line with the benchmark. The exception is the Henderson Small Cap fund, which despite good returns over the last year has performed poorly over the three year benchmark.

Members are advised to note a planned change in management structure by the fund manager, effective from 1 November 2018. The plan is to bring the management of the Janus Henderson UK and Irish Smaller Companies fund in house. This may lead to significant transition costs as assets are liquidated and new ones acquired. Although officers have been advised that this process will be treated sensitively and the cost of the restructure will be minimised, a proposal to sell the Janus Henderson Small caps UK equities is outlined in the Investment Strategy report to be presented to the Committee along with this report.

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. The current asset value is £0.7m and the liquidation process is expected to 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 depreciation in value in a quarter when there has been a distribution of capital to investors. As this investment represents less than 1% of the overall Fund at June 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.

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 £4.2m distribution in the quarter.

This fund expects further appreciation, as seen with the appreciation of £5.1m this quarter, as underlying portfolio companies exit the fund and managers take advantage of a benign exit environment.

3.11 **Infrastructure**

There are two investments managed by Alinda, namely Alinda II and Alinda III.

There was a distribution of £3.2m in the quarter, mainly from the Alinda II fund which is entering a mature stage in its life and distributing large amounts of cash. This has contributed to the increased amount of cash being held by the Fund.

As a result of the cash distribution, this the asset value has reduced from £24.9m to £21.4m with a slight appreciation of £0.3m from the Alinda III fund.

This quarter has seen an appreciation of £2.1m from investments in Capital Dynamics; compared to the drop in value in the last two quarters.

Members are advised to note that it is normal to expect good and bad investments in this portfolio as it is an unlisted fund. 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**
Whilst the Baillie Gifford fund realised growth over the past year; primarily due to continued positive performance in investment markets, the fund saw a drop in value of £0.9m in Q2 this quarter.

During the three months to the end of June 2018, the fund delivered a negative return of -1.3%. The fund's performance and volatility are measured over a 5 year period and in the last five years, the fund returned 4.7% per annum (net of fees) and 4.45% in the last three years as can be seen in Table 3 above.

The manager has taken on a strategy to de-risk the fund by reducing equity and credit allocations and increasing hedging positions.

Ruffer joined the Fund in March 2017 and depreciated in value in every quarter except the last quarter of 2017. The fund saw in increase of £1.1m in Q2 and a relative return of 1.31% above benchmark. 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. As the strategy for this fund remains unchanged, officers remain cautious of the volatility in recent quarters and will continue to liaise with the London CIV to challenge the performance of this particular fund.

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 5: 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%	2%	Yes
Contributions invested in partnerships	30%	11%	Yes
Cash deposits	10%	12%	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%	11%	Yes

3.14 Cash deposits have breached the restriction limit. £108.5m of cash is principally being held for the following reasons:

3.14.1 Approximately £31m of this 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 and is expected to be paid by the end of 2018.

3.14.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure (See table 5 in section 3.15) and to re-allocate to other future investments following decisions made at the November Sub-Committee meeting on the Investment Strategy.

3.15 The table below illustrates the Fund's outstanding contractual commitments in Private Equity and Infrastructure investments. These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

Table 6: Outstanding contractual commitments on existing investments

Asset	**31 Mar 2018**	**30 Jun 2018**
	£m	**£m**
Capital Dynamics	13.0	13.8
Alinda	16.5	17.4
Total	**29.5**	**31.2**

3.16 Given the sizable amount of cash being held and the need to reduce this to a level which generates more returns to the fund than the current 0.3% interest being generated through investments in Money Market Funds, proposals to utilise some of this cash are set out in the Investment Strategy report which will be presented to the Committee along with this report.

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

Report sign off: ***CONRAD HALL*** Chief Finance Officer .

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MJ HUDSON
Allenbridge

Brent Council Pension Fund
Quarterly Review Q2 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.

BRENT COUNCIL PENSION FUND
Quarterly Review, April – June 2018
Report by the Independent Financial Adviser

Economy

1. Growth forecasts for 2018 have been moderated since April, and the consensus forecasts for 2019 have also been lowered slightly. Levels of inflation in Western economies have eased since April.

(In the table below the bracketed figures show the forecasts made in April)

Consensus real growth (%)						**Consumer prices latest (%)**
	2015	**2016**	**2017**	**2018E**	**2019E**	
UK	+2.3	+2.0	+1.6	+1.3 (+1.5)	+1.4	+2.4(CPI)
USA	+2.4	+1.6	+2.3	+2.8 (+2.8)	+2.4	+ 2.8
Eurozone	+1.5	+1.6	+2.3	+2.2 (+2.4)	+1.9	+ 2.0
Japan	+0.6	+0.9	+1.7	+1.1 (+1.5)	+1.1	+ 0.6
China	+6.9	+6.7	+6.8	+6.6 (+6.6)	+6.3	+ 1.8

[Source of estimates: The Economist, July 7th, 2018]

2. In June the Federal Reserve raised US interest rates by 0.25%, to the 1.75 – 2% range, and signalled that two further rises were likely this year, as a response to the strong US economy and tightening labour market. The European Central Bank announced that its programme of bond purchases would halve to €15bn /month from October, and then cease at the end of 2018. It also indicated that no rise in interest rates was planned before mid-2019.In

May the Bank of England deferred a rate rise in the light of the slowing UK economy, but on August 2nd it increased the interest rate from 0.5% to 0.75% - the highest level since 2009.

3. The round of import tariffs instigated by President Trump escalated as China retaliated against the 25% levy on certain Chinese imports by targeting US exports from politically sensitive US regions. A further round of US tariffs is threatened, even as the EU responds to the US tariffs on steel and aluminium which came into effect on June 1st. President Trump has been in the headlines constantly. His historic meeting with the North Korean President took place in June, after a fractious summit with G7 heads of state in Toronto. A later confrontation with NATO leaders was followed by a more harmonious meeting with President Putin in Helsinki. His visit to Britain was carefully planned to avoid the mass demonstrations in the centre of London and other cities.

4. In Britain the divisions within the Conservative party over Brexit deepened. A Cabinet meeting at Chequers on July 6th appeared to have settled government policy on the issue, but within two days David Davis (Brexit Secretary) and Boris Johnson (Foreign Secretary) had resigned from the Cabinet.

5. The European political scene underwent several significant changes. In Italy the 5 Star movement and La Liga formed an improbable coalition, and installed Giuseppe Conte as Prime Minister, while the Spanish PM Mariano Rajoy was ousted after a parliamentary vote, and replaced by the Socialist leader Pedro Sanchez. In Germany the CDU/CSU majority party survived an internal row over immigration policy.

Markets

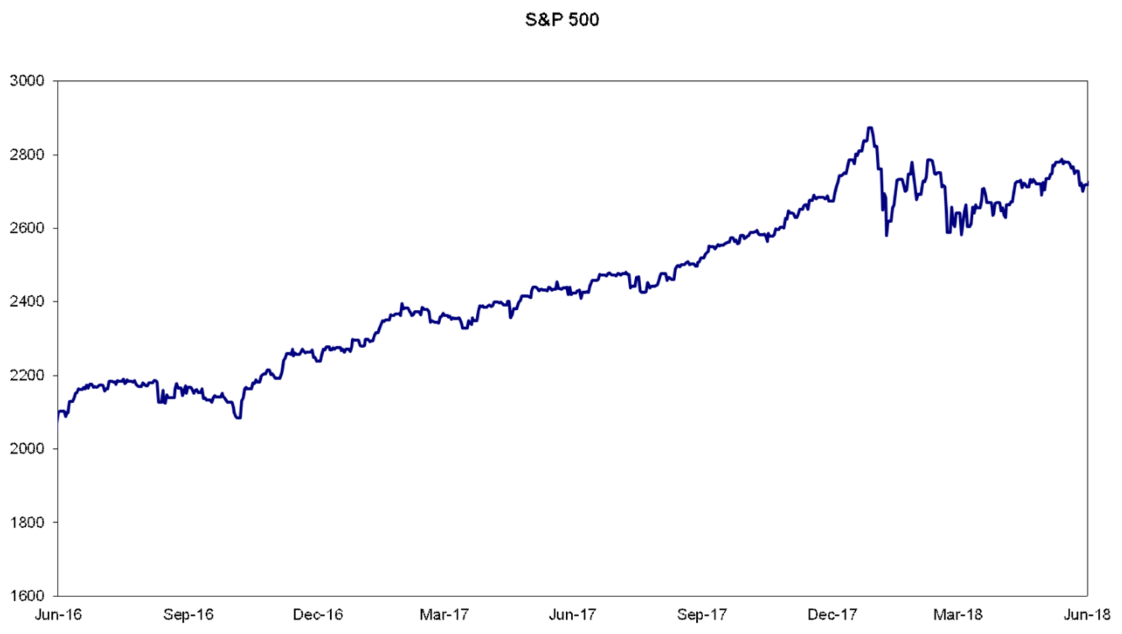
Equities

6. After the falls experienced in the first quarter of the year, equity markets rebounded strongly although at the end of June North America was the only region showing a positive return for the calendar year to date. The scale of the rally in US equities (see graph below) was magnified in £ terms by the weakness of the pound relative to the dollar, which also contributed to the relative strength of the UK equity market.

	Capital return (in £, %) to 30.6.18		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+6.0**	**+6.8**
55.4	FTSE All-World North America	+9.5	+10.3

8.4	FTSE All-World Japan	+3.0	+7.1
12.6	FTSE All-World Asia Pacific ex Japan	+1.3	+3.9
15.1	FTSE All-World Europe (ex-UK)	+1.2	-0.2
6.0	FTSE All-World UK	+8.2	+4.2
9.9	FTSE All-World Emerging Markets	-3.3	+3.0

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



7. The surge in the oil price during the quarter buoyed up the Oil & Gas sector, while Technology continued its recent strong run

	Capital return (in £, %) to 30.6.18		
Weight %	**Industry Group**	**3 months**	**12 months**
14.8	Technology	+10.4	+23.1
6.7	Oil & Gas	+16.3	+18.7
11.3	Consumer Services	+10.4	+12.2
4.7	Basic Materials	+5.9	+11.2
100.0	**FTSE All-World**	**+6.0**	**+6.8**
12.7	Industrials	+3.6	+4.9

10.5	Health Care	+8.9	+3.1
21.6	Financials	+1.0	+2.1
12.0	Consumer Goods	+2.6	-1.4
3.0	Utilities	+5.7	-1.6
2.7	Telecommunications	+0.7	-9.4

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

8. UK shares recovered strongly during April and May, before losing some ground in June. The Bank of England's decision not to raise interest rates in May caused a weakening of the pound which implies higher profits for UK companies with foreign-currency earnings.

(Capital only%, to 30.6.18)	3 months	12 months
FTSE 100	**+8.2**	**+4.4**
FTSE 250	**+7.0**	**+7.7**
FTSE Small Cap	**+5.1**	**+5.2**
FTSE All-Share	**+7.9**	**+5.0**

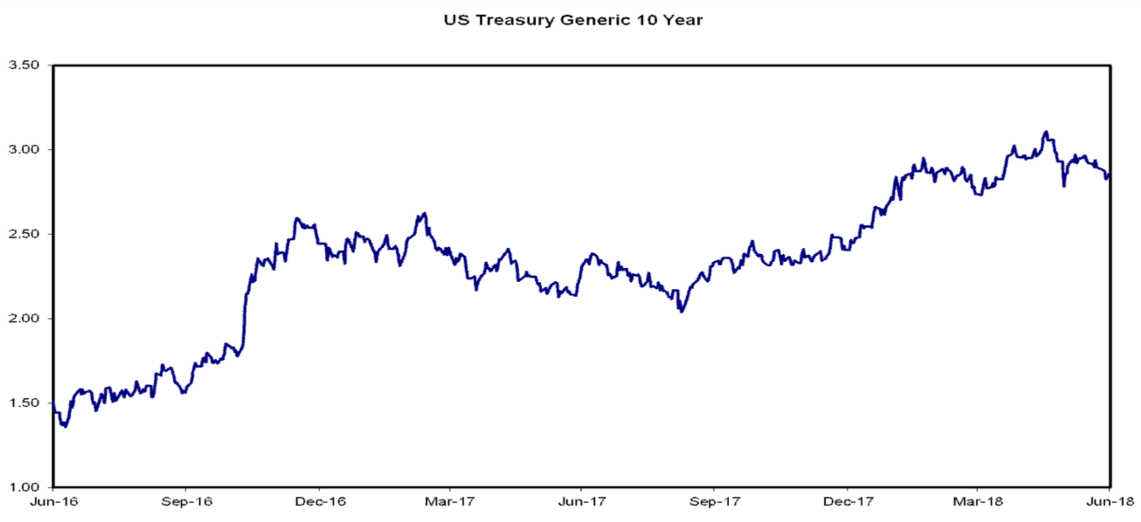
[Source: Financial Times]

Bonds

9. Despite the rise in short-term interest rates, longer-term US bond yields were little changed over the quarter, even though the 10-year yield briefly exceeded 3% (as shown in the graph below).

10-year government bond yields (%)					
	Dec 2015	**Dec 2016**	**Dec 2017**	**Mar 2018**	**June 2018**
US	2.27	2.46	2.43	2.75	2.84
UK	1.96	1.24	1.23	1.35	1.28
Germany	0.63	0.11	0.43	0.50	0.30
Japan	0.27	0.04	0.05	0.04	0.03

[Source: Financial Times]



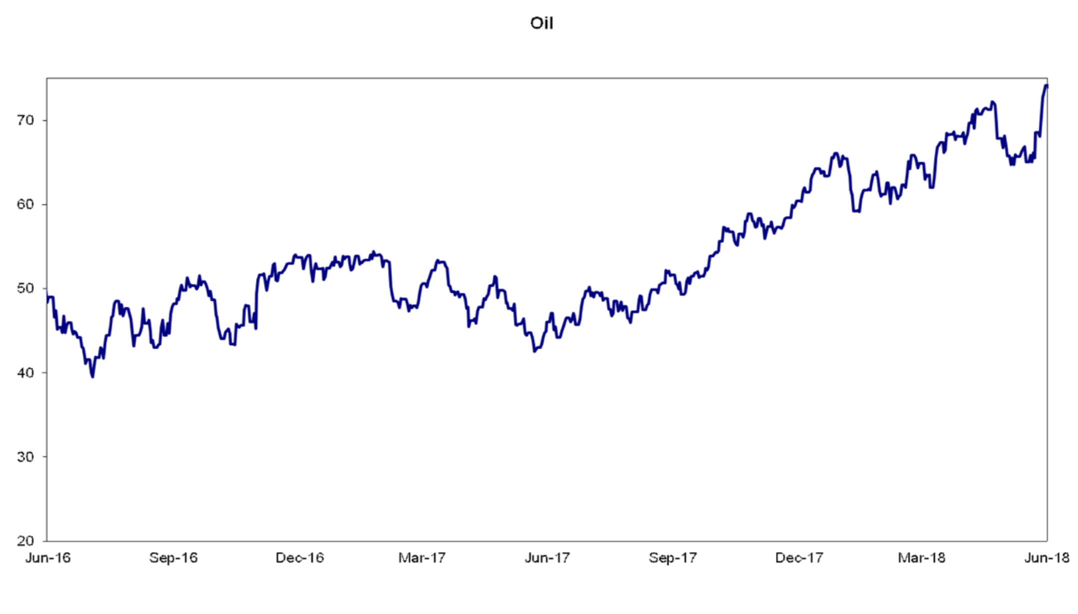
Currencies

10. The dollar was strong relative to the other major currencies, gaining almost 5% on a trade-weighted index basis. Sterling weakened after interest rates were held in May, but viewed over a 12-month period the currency cross-rates are almost unchanged.

				£ move (%)	
	30.6.17	**31.3.18**	**30.6.18**	**3m**	**12m**
$ per £	1.299	1.403	1.320	-5.9	+0.2
€ per £	1.139	1.141	1.131	-0.9	-0.7
Y per £	146.0	149.2	146.2	-2.0	+0.1

Commodities

11. The **oil** price continued to rise, partly on fears that the US withdrawal from the Iran nuclear deal would result in an embargo on exports of oil from Iran. The end-June Brent crude price of $79/barrel represented a rise of 14% in the quarter and almost 60% over the past year. **Copper** had reached its highest price for four years in early June, but then fell back sharply on concerns about a slowdown in China's economy, as well as the possible impact of US tariffs being imposed on Chinese imports.



Property

12. The recent pattern has continued, with the Industrial sector by far the most buoyant, while the Office and – especially – Retail sectors lagged well behind, albeit still delivering positive returns for the quarter and the year.

	3-month	(%)	12-month
All Property	**+ 2.2**		**+10.9**
Retail	**+ 0.5**		**+ 5.7**
Office	**+ 1.6**		**+ 8.3**
Industrial	**+ 5.1**		**+22.2**

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

Outlook

13. Equity markets appear to have recovered their equilibrium after the volatility in January/February, but looking at the returns more closely it becomes apparent that only the US equity market has made any gains this year, and this may be largely a result of the boost to corporate profits from the cuts in Corporation Tax. The escalating trade war between the US and China could have widespread impacts on companies' input costs. Meanwhile the uncertainty

over the form that Brexit will take is a cloud hanging over UK and European companies.

14 The steady rise in US interest rates, together with the actions of other Central Banks, shows that the era of artificially cheap money is coming to an end, which limits the potential for further rises in equity or bond markets.

Peter Davies

Senior Adviser – MJ Hudson Investment Advisers

August 6th, 2018
[Graphs supplied by Legal & General Investment Management]

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Brent	**Pension Fund Sub-Committee** 6 November 2018
	Report from the Chief Finance Officer

Brent Pension Fund: Annual Report and Accounts 2017/18

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One: • Brent Pension Fund Annual Report and Accounts 2017/18
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer Conrad.Hall@brent.gov.uk Tel. 0208 937 6528 Ravinder Jassar, Head of Finance Ravinder.Jassar@brent.gov.uk Tel. 0208 937 1487

1.0 Purpose of the Report

1.1 This report presents the audited 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 The accounts (Appendix A) 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 audited accounts 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.

3.2 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 £831.3m.

- 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.

<u>Report sign off:</u>

CONRAD HALL
Chief Finance Officer
.

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Brent Pension Fund

Annual Report and Accounts 2017/18

Pensions Regulator Scheme Number: 10272080

Contents

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 £831.3m (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 £49.9m 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 51.

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 51.

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 54.

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 57.

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 SDP, 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 geo-political 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.

2017/18 Investment Results

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2018 is shown below:

	Total Fund Return %	Fund Benchmark Return %
1 year	*1.5*	4.8
3 years	*6.8*	7.9
5 years	*7.5*	8.3

In absolute terms, the Fund's investment assets have achieved a return of 1.5% over the 12 months to 31 March 2018. This represented an under performance of 3.3% relative to its annual benchmark of 4.8%.

The Fund's investment performance in comparison to the PIRC Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Rank	Period ended 31 Mar 18	PIRC Local authority Average
1 year	97	1.5	4.5
3 years	80	6.8	8.3
5 years	83	7.5	8.8
10 years	98	5.1	7.7

Performance on investments is skewed somewhat by particularly poor results in Quarter 4 (January to March 2018) where the value of the fund reduced by 3%. This was primarily due to volatile performance in listed equities during this period, in particular overseas and UK equities which fell in value by 5% and 8.2% respectively. Prior to this the Fund rose in value by 6.5% between Quarters 1 and 3. Overall, the value of the Fund rose by 3.7%, from £802.7m to £831.3m, during 2017/18.

It is important to note that, as a long term investor, investment returns over a longer period of time should be considered. The table below shows the rolling three year performance of the Fund compared to other LGPS funds:

	Rank	Rolling 3 year return
2017/18	80	6.8
2016/17	75	9.9
2015/16	49	6.5
2014/15	80	10.1

Further analysis and commentary on the investment performance of individual mandates can be found within the Fund's performance monitoring reports that are presented to the Pensions Sub-committee on a quarterly basis.

It is important to consider the risk framework in which the investment results are achieved. If the Fund takes more risk in its asset allocation decisions, it offers the potential for higher returns but it also increases the uncertainty of the outcome, potentially increasing the chances of a negative downside. The Fund is committed to on-going review of its asset allocation and achieving an appropriate balance between risk and reward. While the Fund is a long term investor of capital through investment cycles, it is also committed to holding investment managers to account for the results they achieve.

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 60.

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	10	36.1
44.7			**75.0**
(6.3)	**Net (additions)/withdrawals from dealings with members**		**21.5**
3.9	Management expenses	11	4.3
(2.4)	**Net (additions)/withdrawals including management expenses**		**25.8**
	Returns on investments		
(4.8)	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	(22.4)
(125.3)	**Net return on investments**		**(23.3)**
(127.7)	**Net (increase)/decrease in the net assets available for benefits during the year**		**2.5**
(675.9)	**Opening net assets of the scheme**		**(803.6)**
(803.6)	**Closing net assets of the scheme**		**(801.1)**

Net Assets Statement

31 March 2017 £m		Notes	31 March 2018 £m
802.6	Investment assets	14	831.3
802.6			**831.3**
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**		**801.1**

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 payments to and on account of leavers and current liabilities relates to this transfer of assets.

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2018, but excludes long-term liabilities to pay pensions and benefits in future years. The actuarial present value of promised retirement benefits is disclosed in Note 19

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) Contingent Assets

Admitted body employers in the Brent Pension Fund hold 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. Contingent Assets are disclosed in Note 25.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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).

o) 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 Fund's accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 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 (Note 19)	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	Market value 31 March 2018
	£m	£m
Investment assets		
Pooled investments	620.3	636.9
Pooled property investments	3.6	2.1
Private equity/infrastructure	130.3	98.3
Total investments	**754.2**	**737.3**

a) Investments 17/18

	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018
	£m	£m	£m	£m	£m
Pooled investments	620.3	0.0	(1.1)	17.7	636.9
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)**	**25.4**	**737.3**
Other Investment balances:					
Cash Deposit	**47.5**				**94.0**
Investment Income due	**0.9**				**0.0**
Net investment assets	**802.6**				**831.3**

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	31 March 2018
	£m	**£m**
Pooled funds – additional analysis		
UK		
Fixed income unit trust – Public Sector	29.2	27.1
Fixed income unit trust – Other	62.1	67.1
Unit trusts	136.1	140.1
Diversified growth funds	125.3	128.3
Overseas		
Unit trusts	267.6	274.3
Total Pooled funds	**620.3**	**636.9**
Pooled property investments	**3.6**	**2.1**
Private equity/infrastructure	**130.3**	**98.3**

Total investments	**754.2**	**737.3**

Investments analysed by fund manager

		Market value		
31 March 2017			**31 March 2018**	
£m	**%**		**£m**	**%**
374.4	49.6	Legal & General	382.7	51.9
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	79.5	10.8
49.4	6.5	LCIV - Ruffer	48.8	6.6
3.6	0.5	Aviva	2.1	0.3
38.0	5.0	Alinda	24.9	3.4
754.2	**100.0**		**737.3**	**100.0**

All the above companies are registered in the United Kingdom.

c) Stock lending

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

15a. Valuation of financial instruments carried at fair value

The basis of the valuation of each asset class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	**Valuation hierarchy**	**Basis of valuation**	**Observable and unobservable inputs**	**Key sensitivities affecting the valuations provided**
Market quoted investments	Level 1	Published bid market price ruling on the final day of the	Not required	Not required

		accounting period		
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with our independent investment advisor, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value of decrease
		£m	£m	£m

Private equity	15%	65.1	74.9	55.3
Infrastructure	5%	33.2	34.9	31.5

15b. Fair value hierarchy

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

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.

Transfers between levels will be recognised when there has been a change to observable mark data (improvement or reduction) or other change in valuation technique.

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		639.0	98.3	737.3
Loans and receivables	94.0			94.0
Total financial assets	**94.0**	**639.0**	**98.3**	**831.3**
Financial liabilities				
Financial liabilities at amortised cost	(31.6)			(31.6)
Total financial liabilities	**(31.6)**	**0**	**0**	**(31.6)**
Net financial assets	**62.3**	**639.0**	**98.3**	**799.7**

	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**

15c. Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2 during the year

15d. Reconciliation of Fair Value Measurements within Level 3

	£m
Value at 31 March 2017	130.3
Transfers into Level 3	0
Transfers out of Level 3	0
Purchases	4.2
Sales	(44.5)
Issues	0
Settlements	0
Unrealised gains/losses	0
Realised gains/losses	8.3
Value at 31 March 2018	98.3

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			Pooled investments	636.9		

3.6			Pooled property investments	2.1		
130.3			Private equity/ infrastructure	98.3		
	47.5		Cash		94.0	
	0.9		Debtors		0.0	
754.2	**48.4**	**0.0**		**737.3**	**94.0**	**0.0**
			Financial Liabilities			
		(1.5)	Creditors			(31.6)
754.2	**48.4**	**(1.5)**	**Totals**	**737.3**	**94.0**	**(31.6)**

a) Net gains and losses on financial instruments

31 March 2017 £m		31 March 2018 £m
	Financial assets	
121.2	Fair value through profit and loss	25.4
121.2	**Total**	**25.4**

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 Carrying value £m	31 March 2017 Fair value £m		31 March 2018 Carrying value £m	31 March 2018 Fair value £m
		Financial assets		
754.2	754.2	Fair value through profit & loss	737.3	737.3
48.4	48.4	Loans and receivables	94.0	94.0
802.6	**802.6**	**Total financial assets**	**831.3**	**831.3**
		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.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	31/03/2018 Value (£m)	Potential market movements (+/-)
Bonds	94.1	7.0%
Equities	414.3	15.0%
Other Pooled investments	157.6	5.0%
Pooled Property investments	2.1	14.0%
Private Equity	65.1	15.0%

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	31/03/2018 Value (£m)	Potential value on increase (£m)	Potential value on decrease (£m)
Bonds	94.1	100.7	87.6
Equities	414.3	476.5	352.2
Other Pooled investments	157.6	165.5	149.7
Pooled Property investments	2.1	2.4	1.8
Private Equity	65.1	74.8	55.3
Total	**733.2**	**819.9**	**646.6**

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	94.0
UK Fixed income unit trust	91.3	94.2
Total	**138.7**	**188.2**

Asset type	**Carrying amount as at 31 March 2018**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£m	**£m**	**£m**
Cash balances	94.0	0.9	(0.9)
UK Fixed income unit trust	94.2	0.9	(0.9)
Total change in assets available	**188.2**	**1.8**	**(1.8)**

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	0.5	(0.5)
UK Fixed income unit trust	91.3	0.9	(0.9)
Total change in assets available	**138.7**	**1.4**	**(1.4)**

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 £m	Asset value at 31 March 2018 £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	
		+1%	-1%
	£m	£m	£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	
		+1%	-1%
	£m	£m	£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 £94.0m (31 March 2017: £47.5m). This was held with the following institutions:

	Rating	Balances as at 31 March 2017	Balances as at 31 March 2018
		£m	**£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**	**94.0**

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 liquid 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 next valuation will take place as at March 2019.

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. As a result, a deficit recovery plan is in place which aims to achieve 100% funding over a period of 19 years from April 2016.

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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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.

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2018 was £1,680m (31 March 2017: £1,635m). This figure includes both vested and non-vested benefits, although the latter is assumed to have a negligible value. 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	31 March 2018
	£m	£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 - Group transfers	0.0	30.9
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.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

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 48 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
19 September 2018

Independent auditor's report to the members of London Borough of Brent on the pension fund financial statements published with the Brent Pension Fund Annual Report and Accounts 2017/18

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Pension Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 3.

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Brent for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts on 31 July 2018 and the date of this report.

Respective responsibilities of the Chief Finance Officer and the auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Brent Pension Fund Annual Report and Accounts 2017/18 with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Brent, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In addition, we read the information given in the Brent Pension Fund Annual Report and Accounts 2017/18 to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Andrew Sayers
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
19 September 2018

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.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: 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).	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members. The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.

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 PAGE

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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.

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 (j).		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/outsourcing 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 (j).

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

Risk	Summary of Control Mechanisms
	risk. 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.
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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is

Risk	Summary of Control Mechanisms
	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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.
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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
some way	Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

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 as an interim allocation.

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	30%

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 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. The Fund is a long-term investor and therefore, the Committee seeks to act as a responsible asset owner. Further details of the Fund's approach to managing ESG risks are 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 Fund'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. They 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	Market value of assets	Benchmark
Diversified Growth Fund	Baillie Gifford	£79.5m	Base Rate +3.5%
Diversified Growth Fund	Ruffer	£48.8m	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	Market value of assets	Benchmark	Reason for not investing via the London CIV

Passive Equity	LGIM – Global Ex-UK	£274.3m	FTSE Developed World ex UK	Cheaper outside the CIV for technical reasons.
Passive Equity	LGIM - UK	£108.4m	FTSE All Share	Cheaper outside the CIV for technical reasons.
Active Equity	Henderson – UK small caps	£31.6m	FTSE Small Cap	Class not available through the London CIV
Property	Aviva - Europe	£2.1m	IPD All Properties Index	Exiting Property
Bonds	Henderson	£94.1m	Absolute Return 4% pa	Awaiting London CIV fixed income option
Infrastructure	Capital Dynamics	£8.4m	Absolute Return 8% pa	Not available through the London CIV
Infrastructure	Alinda	£24.9m	Absolute Return 8% pa	Not available through the London CIV
Private Equity	Capital Dynamics	£64.5m	Absolute Return 8% pa	Not available through the London CIV
Cash	Cash	£94.0m	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.

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.

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, including:

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. 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 31st August

	annually

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.

Brent

MINUTES OF THE PENSION BOARD
Tuesday 24 July 2018 at 6.00 pm

PRESENT: Mr Ewart (Chair), Councillor Perrin, Stewart, Dawson and Steer

1. **Apologies for absence**

   Received from Councillor Crane and Bola George (Member Representative – UNISON).

2. **Declarations of interests**

   Mr David Ewart declared that he was a member of CIPFA.

3. **Minutes of the previous meeting - 12 March 2018**

   The minutes of the last meeting held on 12 March were approved as an accurate record.

4. **Matters arising**

   None.

5. **Deputations**

   None.

6. **Pensions Board Annual Report**

   Members received an annual report from the Chair that provided a summary of the Board's activities for the municipal year 2016/17. The report presented details of the Board members, training, the programme of work and highlighted issues of major concern that the Board wished to draw to the Council's attention.

   Mr David Ewart (Chair) reiterated the Board's continued concern with the Brent Pension Fund's level of funding, which was still one of the lowest in Local Government. The Board however, noted the relatively good current performance of the fund's investments, and remained re-assured by the Council's commitment to bring the level of funding back to full funding over the longer term, as shown by the contribution rates agreed for the coming period. He then referenced the poor performance of the current contractor, in particular, its failure to issue the required Annual Benefit Statements by the deadline of 31st August 2017, resulting in the Council having to self-report to the Pensions Regulator for a second year running. The Board noted with concern that work undertaken to resolve these issues revealed underlying problems with member records.

Another matter concerning the Board was the requirement of the Pensions Regulator about breaches of the Statutory Regulations relating to the schemes record keeping. The Board was concerned that the Council had to re- submit, a much improved, Record Keeping Improvement plan required by the Pensions Regulator. The Board was however, encouraged by the work being undertaken to tackle the issue of record keeping and emphasised the need for continuous careful monitoring.

The Board was very pleased with the progress in the appointment of the pension service administration provider (Local Pensions Partnership (LPP)) and noted that the appointment was not made solely on cost grounds. The Board was also pleased that a new Local Government Pensions administration system (Aquila Heywood) had been obtained and that the Implementation plan which was on schedule, was being monitored. The Chair stated that although good progress appeared to have been made, the importance of careful monitoring of the change-over and working with new provider to gain the maximum benefit from this change could not be over emphasised.

Although the Board was concerned about these issues, they were to some degree, reassured that the Council was, as a matter of urgency, taking steps to address those matters, with a new pension service administration provider appointed and additional staffing resources committed over the long term to focus on pensions administration.

He outlined the Board's work plan and thanked members and officers for their input.

RESOLVED:

That the annual report from the Chair of Pension Board be noted.

7. **Pensions Administration - monitoring and contract arrangements**

This report updated the Pensions Board on the performance of the external contractor (Capita), responsible for the delivery of the pension's administration services, including governance and record keeping. The report also introduced key documentation that would significantly improve governance of the scheme.

Ravinder Jassar (Head of Finance) stated that as previously reported to the Pensions Board, the scheme administrator did not send out 100% of annual benefit statements (ABS) by the statutory deadline of 31 August for both the 2015/16 and 2016/17 ABS roll out. As a result of the breach, the scheme administrator had had to report itself to The Pensions Regulator for two consecutive years. He explained that the root cause of some of the underlying data issues was information flow from payroll providers for schools and other employers. In view of the above challenging issues, the Council had agreed a number of actions to help prevent these issues from re-occurring. He updated members that as at 14 May 2018 (last formal update from Capita) all ABS for 2016/17 had been issued to those that were eligible and that for the 2017/18 ABS roll put Capita had received all end of year submissions from employers and were working to resolve any outstanding queries with those relevant employers.

The Head of Finance explained the significance of Record Keeping Plan (RKP) document and having provided key updates to it continued that as a result of the RKP, significant progress had been made in terms of the quality of member data, governance and effectiveness of the Pensions Board's scrutiny role. He reported on the scheme manager's regular meetings with The Pensions Regulator (TPR) and drew members' attention to appendix two to the report that set out key metrics and detailed all of the individual activities and actions taken with a view to having a robust governance arrangements in place and compliance with relevant regulations and guidance in relation to data management/quality. He advised that as part of the scheme's robust governance arrangements (such as a Pensions Administration Strategy, Risk Management Strategy and Record Keeping Plan) the Scheme manager was also proposing that a policy be put in place setting out how breaches of the law could be identified, recorded and reported. The policy, attached at Appendix four, set out further details of the decision processes involved in determining materiality and reporting arrangements.

In welcoming the report as a significant step in the right direction to address the issues highlighted in the report, members requested further information on the TPR's code of practice. Brian Aspinwall (Interim Pensions Analyst) was requested to circulate the code.

RESOLVED:

(i) That the progress report be noted;

(ii) that the Risk Management Strategy and Risk Register as set out in Appendix three to the report be agreed;

(iii) that the breaches policy as set out in Appendix four to the report be agreed;

(iv) that the high level principles that would feed into the draft Pensions Administration Strategy as set out in section eight of the report be agreed.

8. **Progress on Transition to LLP**

Members considered a report that provided an update to the Pensions Board on the transition of the Pension Administration contract from the current supplier, Capita, to the new supplier, Local Pensions Partnership (LPP) and a summary of the significant stages of the transition plan and actions required in the run up to the contract handover to LPP.

Ravinder Jassar (Head of Finance) informed the Board that the implementation phase was still ongoing with a view to ensuring LPP's successful transition for hand over in October 2018 when the current contract with Capita was due to end (September 2018). He advised that a number of legal documents had been received from LPP, including a Service Level Agreement, a Non-Disclosure Agreement and a Liability Agreement. Members heard that the initial expectation was for the documents to be approved by 31 January 2018. However, as the documents would serve as the binding contracts between the London Borough of Brent (LBB) and LPP, reviews were still being thoroughly carried out, by Brent's Legal and Finance teams, to ensure that the contents met the full requirements of the Fund with no undue oversights.

Mr Jassar advised members that a second cut of data was due to be transferred over to LPP from Capita during the week commencing 9 July 2018 with a final cut scheduled for week commencing 17 September 2018. He drew members' attention to appendix one to the report that set out the Implementation Plan to ensure a smooth transition to LPP.

RESOLVED:

(i) That the progress report on the transition to LLP be noted;

(ii) that the appendix accompanying this report be noted.

9. **Changes to LGPS Regulations**

The report updated the Board on recent changes to the Local Government Pension Scheme regulations and other key developments. Ms Anna McCormack (Senior Pensions Officer) introduced the report and set out the changes. These included the payment of a surplus (an "exit credit") to an "exiting employer", publication of details of admission agreements by 13 May 2019, a facility to allow backdating of admission agreements and correction of the facility that allowed deferred members to draw reduced pensions. These significant changes were currently being considered by the Brent Pension Fund (The Fund) and any change in strategy would be reported accordingly.

Mr Ravinder Jassar (Head of Finance) referenced the Scheme Advisory Board report and drew members' attention to the key LGPS highlights as set out in the report. He then spoke about General Data Protection Regulations (GDPR) and the measures being taken by The Fund to ensure employing members' compliance and how the Fund was working with the Pensions Regulator (TPR) to improve governance fundamentals.

RESOLVED:

That the changes to the LGPS Regulations be noted.

10. **Performance Monitoring - Quarter 4**

The Board received a report that provided a summary of the Fund's activity during the quarter ended 31 March 2018. It examined the economic and market background, and investment performance, as well as commenting on events in the quarter.

Mr Ravinder Jassar (Head of Finance) in summarising the headlines of the fund activity for the quarter, informed members that in the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m. 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. He drew members' attention to the tables within the report and clarified the reasons for performance/returns on the respective investments.

RESOLVED:

That the Brent Pension Fund quarterly performance report and the accompanying Independent Financial Adviser's investment report be noted.

11. **Draft Pension Fund Accounts**

The Board received a report that presented the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018. Mr Ravinder Jassar (Head of Finance) informed the Board that the accounts (which were unaudited) aimed to give a true and fair view of the financial transactions and the level of assets and liabilities of the Pension Fund during the year ended 31 March 2018. He then highlighted the salient aspects of the accounts.

Members heard that 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 with corresponding increases in total contributions received from employers and employees. These totalled £49.8m for the year, a marginal increase on the previous year's figure of £48.6m. He advised that 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. The Head of Finance added that although the accounts were unaudited, the Council's external auditor (KPMG) had not identified or anticipated any material changes.

RESOLVED:

That the annual report and accounts for 2017/18 be noted.

12. **Update on London Collective Investment Vehicle (London CIV)**

The report updated the Pension Board on recent developments within the London CIV and the timescales attached to making investment decisions. Ravinder Jassar (Head of Finance) informed members that as at 31 March 2018 the LCIV's assets under oversight had grown to just under £15 billion, which represented around 40% of the 32 London Local Authorities total assets under management. He continued that Brent had 61% (£507m) of its assets under management overseen by the LCIV and that the Fund had achieved fee savings in the region of £0.1m per annum as a result of being part of the LCIV.

He drew members' attention to the fixed income strategy funds being launched by the London CIV as set out in the report and added that Brent officers would 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 would be presented to the Board's next meeting scheduled for 22 November 2018. He then updated members on the outcome of the governance review.

RESOLVED:

That the recent developments with the London CIV, in particular the outcome of the governance review and the new investments be noted.

13. **Investment Advice Procurement**

Mr Ravinder Jassar (Head of Finance) introduced the report which set out the proposed procurement process to be adopted in relation to the contract for investment advice, when the current contract with MJ Hudson Investment Advisers Ltd would expire on 30 September 2018. Members were informed about the merits of National Framework for Investment Consultancy Services set up by Norfolk County Council including its transparency in fees and comparability between firms. Officers therefore recommended the use of that framework agreement in conducting procurement exercises. He drew members' attention to the list of firms that had signed up to the framework and outlined the stages of the procurement exercise as set out within the report.

Mr Jassar then drew members' attention to the recommendations of the report; the grant of 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 and a representative of the Sub-Committee to sit on the interview panel.

RESOLVED:

(i) That the Sub-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.

(ii) That Councillor Choudhary (Chair of Brent Pension Fund Sub-Committee) be nominated to attend the interview and presentation stage of the procurement process.

14. **Regulatory Oversight of LGPS**

The purpose of this report was to draw members' attention to the regulatory framework within which the LGPS operated, as part of the Public Services Pension Act 2013, and the work that had been undertaken to date by Central Government. In setting the background, Mr. Ravinder Jassar (Head of Finance) informed the Board that the Government Actuary Department (GAD) appointed by Central Government to oversee the activity of LGPS had reported on whether the LGPS funding valuations complied with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency.

He continued that 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 as 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. Members were advised that the 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. He undertook to report the findings to a future meeting of the Sub-Committee. The representative of the Fund's actuary added that no major issues of concern had been identified in Brent's valuation.

RESOLVED:

(i) To note that the Pension Fund would need to comply with the section 13 process, responding to all queries and requirements of the Government Actuary Department (GAD);

(ii) to note that the outcome of the review by GAD would be presented to the Board when the work had been completed.

15. **Any other urgent business**

None.

16. **Date of next meeting**

The meeting closed at 8.15 pm

MR. D EWART
Chair

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