	Pension Fund Sub-Committee 20 November 2012 **Report from the Deputy Director of Finance**
For action	Wards Affected: ALL
Brent Pension Fund – socially responsible investment	

1. SUMMARY

1.1 At its meeting of 14 October 2010, the Health Partnerships Overview and Scrutiny Committee agreed to request that the Brent Pension Fund Sub-Committee should consider its investments in tobacco firms. At a meeting of the Pension Fund Sub-Committee on 30 November 2010, a decision was taken to reaffirm its existing investment policies included in its Statement of Investment Principles.

1.2 The Health Partnerships Overview and Scrutiny Committee requested at their meeting of 18 July 2012 that the Brent Pension Fund Sub-Committee reconsider the investments that the Fund holds in tobacco firms.

2. RECOMMENDATIONS

2.1 Members are asked to reaffirm their existing investment policies as set out in paragraph 3.3 of this report and in the Statement of Investment Principles.

3. DETAIL

Investment in tobacco

3.1 The Health Partnerships Overview and Scrutiny Committee met on 18 July 2012 and made recommendations to the Pension Fund Sub-Committee as follows:-

(i) that in the light of Brent's recent CLeaR Award for excellence in local tobacco control presented at the House of Commons on 15 May 2012, the Brent Pension Fund Sub-Committee reconsiders its decision to continue investing in tobacco companies. This policy is at odds with the Council's work on tobacco control and the support that it gives to the Tobacco Control Alliance and Smoking Cessation Team in the borough;

(ii) that in considering recommendation (i), the Brent Pension Fund Sub-Committee considers two reports - the CLeaR Model Assessment for Excellence in Local Tobacco Control, which is an assessment of the work of Brent's Tobacco Control Alliance; and, a report from ASH on local authority pension fund investments in tobacco companies, which deals with both the question of ethical versus financial considerations, and the issue of noninterference with fund managers' decisions, both of which reasons were given in the previous reply from the Brent Pension Fund Sub-Committee in November 2010 for not disinvesting in tobacco companies; and

(iii) that the Brent Pension Fund Sub-Committee notes that although investment in Tobacco Companies in Brent is around £2.5 million, the estimated cost to Brent of smoking, as shown in the graph on page 9 of CLeaR report is some £57.9 million. The number of annual tobacco-related deaths in Brent, as set out in Brent's Joint Strategic Needs Assessment is 230.

Corporate governance and socially responsible investment

3.3 The background to the development of the Pension Fund Sub-Committee policies on corporate governance and socially responsible investment (SRI) has been controversial. In order to confirm that the management of the Pension Fund was primarily concerned with generating the best investment returns within acceptable risks, the Council meeting of 13 February 1996 agreed that:

'The Council re-confirms its policy of non-political or administrative interference with the investment manager's investment decisions or involvement with companies in which the fund managers have acquired shares on behalf of the Fund.'

In other words, the fund managers will take investment decisions on the basis of the best interests of the Fund, which is held for the best interest of beneficiaries.

3.4 The key background to the Council's decision were poor experiences in the 1980s and the principles set out in the Cowan vs Scargill judgement in 1985 (the Megarry judgement). These included:

a) trustees are under a duty to exercise their powers in the best interests of the present and future beneficiaries. The best interests will usually be financial interests, unless the trust is a charitable foundation with a particular moral outlook

b) trustees must put aside their own personal interests and views and not exercise their powers for any hidden motive

c) trustees must take such care as would the 'ordinary prudent person'

d) trustees must consider the need to diversify the investments.

3.5 As part of the adoption of the Statement of Investment Principles (SIP) in 2000, the Pension Fund Sub-Committee agreed to adopt the 1998 Combined Code on Corporate Governance and to engage with UK companies on corporate governance and SRI issues. The Pension Fund Sub-Committee agreed that soundly managed companies were more likely to comply with best practice in corporate governance and to consider long-term and employment / environmental / sustainable issues (SRI issues) as part of their planning process.

3.6 It has become apparent that the number of SRI mandates in local authority funds has reduced as performance targets have not been met. Investment performance is difficult, and it has been accepted that allowing managers wide discretion should encourage improved performance. However, many funds have integrated SRI principles into their investment agreements to ensure that long-term environmental, social and governmental issues are addressed. There has been support for this approach from the United Nations sponsored Freshfields, Bruckhaus, Deringer opinion that 'integrating ESG (environmental, social and corporate governance) considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.' Doubt has been cast on the validity of the opinion in the light of the Megarry judgement, but it is apparent that consideration of SRI issues can improve investment analysis. In particular, the risks involved in a large weighting to oil stocks were shown in the recent performance of BP shares when their oil rig exploded in the Gulf of Mexico. However, the questions here are more financial than ethical – similar questions have been raised with AllianceBernstein over their exposure to financial stocks in 2008.

3.7 Other organisations contact Brent Council periodically to raise other SRI issues. In particular, the Campaign Against the Arms Trade (CAAT) has previously asked for details of investment in companies producing weapons. Other areas could include alcohol, oil, drug testing, fatty foods, foreign regimes, investment only in UK, etc. These could be very subjective areas.

3.8 At their meeting on 20 February 2008, the Pension Fund Sub-Committee reconfirmed its policy of non-political or administrative interference with managers' investment decisions. A copy of the Council's SIP is attached as Appendix 1. Paragraph 34 sets out policy with regard to Corporate Governance and Socially Responsible Investment.

3.9 Investment in tobacco companies has been highly successful over the years. At present, the Fund indirectly invests in tobacco companies through pooled equity funds managed by Legal & General Investment Management – the value of the investment is an estimated £2.5m.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

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

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 In the case of *Cowan v Scargill and Others [1985] Ch. 270*, Vice Chancellor Sir Robert Megarry laid down a number of principles, which include the following:

(1) The duty of trustees to exercise their powers in the best interests of the present and future beneficiaries of the trust and this duty towards their beneficiaries is paramount.

(2) In considering what investments to make, trustees must put on one side their own personal interests and views.

(3) The benefit of the beneficiaries which a trustee must make his paramount concern does not necessarily mean solely their financial benefit. However, the Judge added that under a trust for the provision of financial benefits, the burden would rest heavily on the trustee who asserts that it is for the benefit of the beneficiaries as whole to receive less by reason of the exclusion of some of the possibly more profitable forms of investment. The Judge said that such circumstances would be rare and if such circumstances did not arise, the paramount duty of the trustee would normally be to provide the greatest financial benefit for the present and future beneficiaries.

(4) The required standard required of a trustee in exercising his powers of investment is that he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide. This includes the duty to take professional advice on matters which the trustee does not understand, such as the making of investments and, on receiving that advice, to act with the same degree of prudence.

(5) Trustees have a duty to consider the need for diversification of investments.

(6) The law relating to trusts is applicable to pension funds.

7.2 In the case of *Martin v City of Edinburgh District Council [1988] SLT 329*, Lord Murray ruled that the members of the Council, as trustees, when deciding to withdraw investments from companies which had links with South Africa, had not applied their minds separately and specifically to the question whether the changes in investments would be in the best interests of the beneficiaries of the trusts and that as a result, they were in breach of trust. In this case, the trustees did not consider or take professional advice on whether withdrawing investment from companies which had links with South Africa would be in the interests of the beneficiaries of the trusts. In that case, Lord Murray made the following observation: "I accept that the most profitable investment of funds is one of a number of matters which trustees have to consider. But I cannot conceive that trustees have an unqualified duty … simply to invest trust funds in the most profitable investment available. To accept that without qualification would, in my view, involve substituting the discretion of financial advisors for the discretion of trustees". Lord Murray also said that an individual trustee must recognise that he has certain preferences, commitments or principles but none the less do his best to exercise fair and impartial judgment on the merits of the issue before him.

7.3 In the case of *Bishop of Oxford v (Church Commissioners) [1993] 2 All ER 300*, Vice Chancellor Nicholls accepted that there were at least two exceptions to the duty to maximise financial returns, but they relate mainly to charities. The first exception is where the aims of the charity and objects of investment are in conflict and the second exception is where particular investments detract from the charity's work. In both exceptions, the trustees must weigh the extent of financial loss from offended supporters and the financial risk of exclusion. It is not clear from the case law whether such principles set out in this case apply to all investment trusts such as pension funds.

7.4 There are a number of other requirements laid down by statute. Under section 4 of the Pensions Act 1995 ("the 1995 Act") and subordinate regulations, the trustees' powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Under section 4(2)(a) of the 1995 Act, the assets must be invested in the best interests of members and beneficiaries. Under section 2(2)(a) of the 1995 Act, the assets must be properly diversified. Under section 4(7) of the 1995 Act, the trustees must obtain proper advice when preparing their statement of investment principles and under section 36(5) of the 1995 Act, they must act in accordance with those principles as far as practicable.

7.5 There are also statutory requirements laid down under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) ("the 2009 Regulations"). Under regulation 11 of the 2009 Regulations, a local authority administering a pension fund must formulate a policy for the investment of its fund money, must invest in accordance with its investment policy any fund money that is not needed immediately to make payments from the fund, obtain proper advice at reasonable intervals about its investments and must consider such advice in taking any steps in relation to investments. Subject to these conditions, a local authority may vary its investments. Also under regulation 11, a local authority's investment policy must be formulated with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments.

7.6 Under regulation 12 of the 2009 Regulations, after consultation with such persons as they consider appropriate, a local authority administering pension funds must prepare, maintain and publish a written statement of the principles (known as Statement of Investment Principles – "SIP") governing its decisions about the investment of fund money. The SIP must cover the local authority's investment policy on various matters, including the extent, if at all, to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The full list of criteria which the SIP must cover in respect of the local authority's investment policy, as set out in regulation 12(2) of the 2009 regulations, is as follows:

(a) the types of investment to be held;
(b) the balance between different types of investments;
(c) risk, including the ways in which risks are to be measured and managed;
(d) the expected return on investments;
(e) the realisation of investments;
(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

7.7 The SIP must be reviewed, and if necessary revised, by the local authority from time to and time and in the case of any material change in the local authority's policy on matters referred to in regulation 12(2), before the end of a period of six months beginning with the date of that change. A copy of the Council's SIP is attached as Appendix 1 to this report and the Council's policy on Socially Responsible Investment (SRI) is set out in paragraph 34 thereof.

8. BACKGROUND

8.1 Pension Fund Sub-Committee – Statement of Investment Principles

9. CONTACT OFFICERS

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

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Appendix 1

LONDON BOROUGH OF BRENT PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Investment responsibilities

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

a) determining the overall investment strategy and strategic asset allocation

b) appointing the investment managers, the Independent Adviser and the Actuary

c) reviewing investment manager performance and processes regularly.

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

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

a) advising and reporting to the Pension Fund Sub-Committee

b) reviewing the activities of the investment managers on a regular basis

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

4 The investment managers are responsible for:

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

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

5 The actuary is responsible for:

a) undertaking a triennial revaluation of the assets and liabilities of the Fund

b) providing annual FRS17 / IAS19 valuations

c) providing advice on the maturity of the Fund.

6 The Independent Adviser is responsible for the provision of advice to the Pension Fund Sub-Committee and the Director of Finance and Corporate Services on all investment issues, in particular asset allocation, new developments and the monitoring of manager performance against the agreed benchmarks.

Risk management

7 There are three main definitions of risk:

a) severe market decline and funds losing value (absolute risk), as occurred in 2008

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

c) not meeting the liabilities set out in the LGPS. The Fund had a deficit of £294m when valued in 2010, and is following a 25-year recovery period.

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

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

10 The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways. First, to enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, reinvest income from dividends or interest received. Second, assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the Fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met. Third, the Brent Fund is mature, there being many more pensioners than working members - to the extent that 61% of assets are 'owned' by pensioner liabilities. Therefore, there is a need to consider the risks involved in pursuing a long-term equity-based strategy when a market correction, and lower dividend payments, could reduce the value of the Fund. There is currently a 'mismatch' between the allocation of more than 90% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the Fund. However, this is balanced by the expectation that equities will generate additional returns to facilitate the payment of both pensioners' and active members' benefits. Contributions from employers and employees are calculated on the basis that they will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to reinvest income and change their stock selections without concern about the need to realise assets quickly. However, most assets are liquid and invested in recognised stock exchanges.

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

Investment objectives

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

a) UK equities – to match the FTSE All Share index

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

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

d) fixed income – Horizon Total Return Bond Fund – to achieve a return of 6% per annum over rolling three year periods

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

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

f) private equity – to achieve an average absolute return of 10% per annum over the life of the Fund

g) fund of hedge funds – to achieve an average return of LIBOR plus 5% per annum

h) infrastructure – to achieve an average absolute return of 10% per annum, comprising both income and capital growth

i) diversified growth fund – to achieve a return of Base Rate plus 3.5% per annum over rolling three years periods.

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

Asset allocation

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

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

Asset Class	Percentage of Fund %	Expected Return p.a. %	Benchmark
UK equities	13	6 – 9	FTSE All Share
UK small companies	4	6 – 9	FTSE Small Cap ex IT
O/seas equities – dev.	19	6 – 9	FTSE AW ex UK
O/seas equities - EM	8	6 – 9	FTSE AW - Emerging
UK fixed interest	15	6	Absolute return
Diversified growth	6	5 – 9	Base Rate + 3.5%
Property	8	5 – 9	IPD and absolute return
Private equity	10	10	Absolute return
Hedge funds	10	5 – 9	LIBOR + 5%
Infrastructure	6	10	Absolute return
Cash	1	1 – 5	Cash

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

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

Investment manager arrangements

The current managers are:

UK equities	Legal & General Investment Management
Overseas equities	Legal & General Investment Management (developed markets), Dimensional Fund Managers (emerging markets)
Fixed income	Henderson Global Investors
Property	Aviva Investors
UK smaller companies	Henderson Global Investors
Private equity	Capital Dynamics
	Yorkshire Fund Managers
Fund of hedge funds	Fauchier Partners
Diversified growth fund	Baillie Gifford
Infrastructure	Alinda Partners
	Henderson PFI Fund II

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

Investment restrictions

19 LGPS investment regulations state that the administering authority shall have regard both to the diversification and the suitability of investments. These were amended in 2003 to allow each fund more discretion over investment policy by allowing a range of limits within an overall ceiling. The Pension Fund Sub-Committee has decided that the Brent Fund may not:

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

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

c) excluding loans to the Government, lend more than 10% of the value of the Fund to any one borrower

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

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

20 The reasons for this approach are:

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

b) return opportunities – the Brent Fund has committed 10% of assets to private equity through partnerships, 6% to infrastructure and 10% to fund of hedge funds. This may increase in future as experience of private equity, infrastructure and fund of hedge funds develop.

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

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

a) undertake stock lending arrangements

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

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

d) borrow

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

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

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

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

Manager Discretion

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

Monitoring activity and performance – managers, adviser and trustees

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

27 WM is an independent performance monitoring agency that measures the performance of the Fund and the individual managers against both the benchmark and peer group funds. Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms in relation to their benchmark over a 'substantial' period (defined as two years), a review of the mandate will be considered.

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

29 The Pension Fund Sub-Committee will review the performance of the Fund's Independent Adviser on a triennial basis, looking at the quality of advice and inputs made.

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

Review of the implementation of investment policy

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

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

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

b) Past performance, including spread of results and volatility

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

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

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

f) Professional judgement.

33 A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent underperformance over a two-year period would automatically place the manager's mandate under review.

Corporate governance and socially responsible investment

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

Learning and development for councillors and officers

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

Representation

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

Communication

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

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

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

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

Treasury Policy

39 The Pension Fund maintains cash balances both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit cash balances with the Council's banker, NatWest, at an appropriate rate.