



Pension Fund Sub-Committee
25 June 2013

Report from the Deputy Director of Finance

For Information

Wards Affected:
ALL

**Monitoring report on fund activity for the quarter ended
31 March 2013**

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2013. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

- a) The Fund has increased in value by £40.9m from £501.0m to £541.9m, and the Fund's return of 7.5% outperformed its quarterly benchmark of 6.4%. The strong performance can be attributed to results in Overseas Equities, UK Smaller Companies Equities, UK Equities, Infrastructure, Private Equity, Emerging Market Equities, Diversified Growth, Fund of Hedge Funds and Fixed Income which all delivered positive returns ranging from 1.6% to 13.2%. Whilst Property continues to achieve a negligible return, the longer term asset classes of Infrastructure and Private Equity have both delivered improved underlying performances.
- b) The positive performance for the quarter ended 31 March 2013 has continued during the months of April and May 2013, where the Fund has continued to increase in value by an estimated £16.0m.
- c) It should be noted that the Fund return of 7.5% represents an underperformance when compared to the WM Local Authority average fund return of 9.0% for the quarter, as a result of Brent's asset allocation with its relatively low exposure to Equities which had a strongly positive quarter and high exposure to Alternatives which performed rather less so.

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 31 March 2013

- 3.1 During the quarter ended 31 March 2013, equity markets were boosted by positive macroeconomic data which pointed to an improvement in the global economy. This encouraged investors to focus on the value offered by equities versus other asset classes. The banking bail-out in Cyprus dented sentiment to some extent but on the whole investors are becoming more tolerant about the continuing troubles of the Eurozone.
- 3.2 An investment update for the period since March 2013, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

- 3.3 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 31 March 2012	Period ended 31 March 2013
1 year	98 th	85 th
3 years	98 th	97 th
5 years	100 th	100 th

- 3.4 The comparative statistics show that the Fund has been one of the lower performing LGPS funds which has been consistently underperforming for a number of years
- 3.5 However, the Brent Pension Fund has benefited from a significant improvement in investment returns during the financial year ended 31 March 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 98th to 85th percentile. Whilst this progress is encouraging, efforts will be made to further build on this improved performance to ensure that it continues over the coming year.

Table 1: Asset allocation as at 31 March 2013 compared to the benchmark

Market (1)	Market Value 31/3/13 £M (2)	Market Value 31/3/13 % (3)	WM LA Average 31/3/13 % (4)	Fund Benchmark 31/3/13 % (5)	Market Value 31/12/12 £M (6)	Market Value 31/12/12 % (7)	WM LA Average 31/12/12 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	82.9	15.3	17.6	15.0	81.6	16.3	18.6
Equities							
UK – Legal & General	78.0	14.4	24.4	13.0	70.8	14.1	26.2
UK - Small Companies Henderson	21.4	3.9	*	4.0	19.0	3.8	*
O/seas – developed Legal & General	124.7	23.0	32.9	22.0	108.1	21.6	30.6
O/seas – emerging Dimensional	36.9	6.8	5.7	8.0	31.3	6.2	6.0
Property							
Aviva	33.3	6.1	6.8	8.0	33.5	6.7	6.7
Private Equity							
Capital Dynamics	66.6	12.3	4.1	10.0	61.1	12.2	4.0
Yorkshire Fund	1.2	0.2	*		1.3	0.3	*
Hedge Funds							
Fauchier	27.2	5.0	2.3	5.0	41.2	8.2	2.0
Infrastructure							
Alinda	16.6	3.1	1.0	6.0	15.3	3.0	0.9
Capital Dynamics	12.7	2.4	*		8.4	1.7	*
Henderson PFI Fund II	0.9	0.2	*		1.1	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	34.0	6.3	2.0	8.0	28.5	5.7	1.5
Cash							
	5.5	1.0	3.2	1.0	-0.2	0.0	3.5
Total	541.9	100.0	100.0	100.0	501.0	100.0	100.0

3.6 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included within the relevant asset class. Aside from market movements, £8.0m of cash was invested equally between Baillie Gifford’s Diversified Growth Fund and the Dimensional Emerging Market Fund to more closely align the actual investment exposures to their long-term strategic allocations.

Asset allocation of the Fund

3.7 The WM Local Authority average asset analysis for the quarter ended 31 March 2013 shows increased allocations into the following asset classes:

Asset class	Increase in percentage allocation
Overseas Equities	+2.3%
Diversified Growth	+0.5%
Hedge Funds	+0.3%
Property	+0.1%
Infrastructure	+0.1%
Private Equity	+0.1%

3.8 Those asset classes out of favour with the WM Local Authority average during the quarter are shown as follows:

Asset class	Reduction in percentage allocation
UK Equities	-1.8%
Fixed Income	-1.0%
Emerging Market Equities	-0.3%
Cash	-0.3%

3.9 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31 March 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31/3/13			Year Ended 31/3/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	1.6	1.5	3.8	8.9	6.0	10.5	Absolute return 6% p.a.
Equities							
UK – Legal & General	10.4	10.4	10.9	17.5	17.5	18.0	FTSE All share
UK - Small Companies Henderson	12.7	11.0	n/a	26.2	28.0	n/a	FTSE Small Cap
O/seas – developed Legal & General	13.2	13.2	13.8	15.8	15.8	17.5	FTSE Dev World ex UK
O/seas – emerging Dimensional	5.3	5.4	7.5	6.8	8.0	10.5	MSCI Emerging Markets
Property							
Aviva	-0.5	1.1	1.3	0.3	3.8	2.8	IPD All Properties Index
Private Equity							
Capital Dynamics	5.8	2.0	6.7	9.8	8.0	11.8	Absolute return 8% p.a.
Yorkshire Fund Managers	-1.5	2.0	*	-6.0	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	4.4	1.4	5.0	6.5	5.5	7.3	LIBOR + 5% p.a.
Infrastructure							
Alinda	8.3	2.0	3.9	8.6	8.0	6.1	Absolute return 8% p.a.
Capital Dynamics	6.5	2.0	*	13.7	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	-0.6	2.0	*	-2.4	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	5.0	1.0	6.1	10.8	4.0	9.9	Base Rate + 3.5% p.a.
Cash							
	0.2	0.1	0.7	0.6	0.5	2.8	Base Rate
Total	7.5	6.4	9.0	12.0	11.0	13.8	

3.10 The Fund's overall return of 7.5% outperformed its quarterly benchmark of 6.4%. Infrastructure, Diversified Growth, Private Equity, Fund of Hedge Funds, UK Smaller Companies Equities and Fixed Income outperformed their respective benchmarks, whilst Property and Emerging Market Equities underperformed against their benchmarks.

- 3.11 The Fund outperformed the WM Local Authority average in the asset class of Infrastructure. The Fund underperformed the WM Local Authority average in the asset classes of Emerging Market Equities, Fixed Income, Property, Diversified Growth, Private Equity, Fund of Hedge Funds, Overseas Equities and UK Equities.
- 3.12 Over one year, the Fund return of 12.0% when compared to its benchmark of 11.0% equated to a net outperformance of 1.0%. Diversified Growth, Fixed Income, Private Equity, Fund of Hedge Funds and Infrastructure performed well over the period and outperformed their benchmarks. Property, UK Smaller Companies Equities and Emerging Market Equities underperformed their benchmarks. However, the Brent Fund's return of 12.0% has underperformed when compared to the WM Local Authority average fund return of 13.8%, mainly due to the strongly positive performance of publicly quoted UK and Overseas Equities for which Brent has a lower proportionate exposure, given its relatively higher investment in Alternative assets.

Indicative performance of the Fund since March 2013

- 3.13 Following a strongly positive quarter ended 31 March 2013, the Fund has continued to increase in value by an estimated £16.0m:

	As at 31 May 2013 £M	As at 31 March 2013 £M	Movement
Fixed Income			
Henderson	82.9	82.9	=
Equities			
UK - Legal & General	83.9	78.0	↑
UK - Small Companies Henderson	22.2	21.4	↑
O/seas – developed Legal & General	133.6	124.7	↑
O/seas – emerging markets Dimensional	36.1	36.9	↓
Property			
Aviva	33.3	33.3	=
Private Equity			
Capital Dynamics	66.6	66.6	=
Yorkshire Fund Managers	1.2	1.2	=
Hedge Funds			
Fauchier	28.0	27.2	↑
Infrastructure			
Alinda	16.6	16.6	=
Capital Dynamics	12.7	12.7	=
Henderson PFI Fund II	0.9	0.9	=
Pooled Multi Asset			
Baillie Gifford DGF	34.1	34.0	↑
Cash			
	5.8	5.5	↑
Total	557.9	541.9	↑

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

Henderson Investors – March 2013 quarter report
Legal & General – March 2013 quarter report
Fauchier Partners – March 2013 quarter report
Dimensional Asset Management – March 2013 quarter report

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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Report from the Investment Advisor Update for April and May 2013

The pattern of rising **equity market** in the first quarter was maintained overall during April and May, although Pacific Basin and Emerging Markets equities lost ground. The following Table shows market movements since end-March and since end-2012.

	Capital return (in £, %) to 31.05.13		
Weight %	Region	2 months	5 months
100.0	FTSE All-World Index	+2.2	+15.8
50.9	FTSE All-World North America	+3.6	+21.3
8.4	FTSE All-World Japan	+2.6	+21.4
12.5	FTSE All-World Asia Pacific ex Japan	- 2.1	+5.9
16.6	FTSE All-World Europe (ex-UK)	+ 3.3	+12.7
8.0	FTSE All-World UK	+ 2.7	+11.8
10.1	FTSE All-World Emerging Markets	- 2.2	+ 2.7

[Source: FTSE All-World Review, May 2013]

Equities had been advancing steadily until May 22nd, when minutes from a Federal Reserve meeting showed that some members of the committee were envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economic recovery gathered pace. While not new, this reminded markets that the buoyancy of markets was partly due to the massive injections of liquidity by Central Banks. In response, equities retreated sharply the next day, with Japan losing 7% and most other markets 2 – 3%, and continued to drift lower for the rest of the month. Another factor in this fall had been weaker than expected economic data from China, in the form of their Purchasing Managers' Index.

Advances in equities have been evenly spread – no industrial sector gained more than 5%, while Oil & Gas and Basic Materials remained among the laggards as forecasts for growth in China were scaled back.

Bond markets also reacted negatively to the May 22nd news from the Fed, and by the end of May 10-year sovereign bond yields were about 25bps above their end-March levels, as shown in this Table.

10-year government bond yields (%)			
	Dec 2012	Mar 2013	May 2013
US	1.76	1.85	2.17
UK	1.85	1.78	2.03
Germany	1.32	1.29	1.51
Japan	0.79	0.57	0.86

[Source: Financial Times]

The rise in Japanese bond yields from exceptionally low levels caused sharp losses in the shares of regional Japanese banks, who are big holders of Japanese government bonds. Meanwhile in the United States, the interest rate payable on mortgages has risen noticeably because of the combined effect of higher Treasury yields and higher lending margins.

The main feature of the **currency** markets has been the continuing decline of the Yen against all other major currencies, as the highly stimulative monetary policy of the Bank of Japan begins to be implemented. The yen crossed the psychologically significant level of 100 per \$ in May.

	31.03.13	31.05.13	£ move
\$ per £	1.518	1.516	- 0.1%
€ per £	1.182	1.170	- 1.0%
¥ per £	142.8	153.1	+ 7.2%

Among **commodities**, gold has fallen sharply – from almost \$1600/oz to just above \$1400/oz in the past two months, while the prices of both copper and oil have declined on signs that China's rate of growth this year will be slower than previously expected.

Peter Davies
June 9th, 2013