Brent	**Pension Fund Sub-Committee** 25 February 2014 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 December 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 £14.1m from £548.4m to £562.5m during the quarter ended 31 December 2013, and the Fund's return of 2.9% under-performed its quarterly benchmark of 3.2%. The biggest contributors to this positive return during the quarter were publicly quoted UK and overseas developed market equities and UK Property. Infrastructure, European Property and Emerging Market equities had a negative impact.

b) The main negative performers compared to benchmark were Infrastructure and Private Equity (mainly denominated in US$) attributable to sterling's strengthening against the US dollar in the quarter from $1.619 per £ at 30 September 2013 to $1.656 per £ at 31 December 2013, an increase of 2.3%.

c) The 12-month return as at 31 December 2013 continues to remain in double-digit territory at 11.6%, albeit lagging behind its 13.0% benchmark.

d) The Fund return for the 3 years ended 31 December 2013 is an annualised 5.6% p.a., which lags behind its long term investment return target of 6.5% p.a.

e) Following the quarter ended 31 December 2013, the Fund has since fallen back in value by an estimated £8.5m to £554.0m during the month of January 2014.

f) It should be noted that the Fund's quarterly return of 2.9% was worse than the WM Local Authority average of 3.7% due to Brent's asset allocation with its relatively low exposure to publicly-quoted Equities which had an overall positive quarter and high exposure to Alternatives which suffered from a generally negative performance, placing the Brent Pension Fund at the 90th percentile for the quarter ended 31 December 2013.

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 31 December 2013

3.1 During the quarter ended 31 December 2013, the robust performance of the UK economy drove sterling's strength against other currencies (most notably the US$ and Euro) and this has had the effect of dampening down the investment performance of the Fund's investment holdings denominated in overseas currencies, such as Private Equity, Infrastructure, Emerging Market Equities and European property.

3.2 There is further evidence that the US economic recovery is gaining momentum. The US Federal Reserve announced plans to reduce the pace of its quantitative easing (QE) programme, reflecting an improvement in the job and housing markets. Initial reductions to the amount of money being pumped into the economy will start in January 2014.

3.3 The UK economy showed signs of on-going strength during the quarter. With the services, construction and production sectors all improving, a faster than expected fall in unemployment prompted speculation that the Bank of England may raise the Bank Rate from 0.5% earlier than had been expected.

3.4 Doubts emerged over the resilience of the Eurozone recovery, as the French and Italian economies contracted.

3.5 Global growth remains below trend, with few signs of inflationary pressures.

3.6 A market review for the quarter ended 31 December 2013, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.7 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 Dec 2012	Period ended 31 Dec 2013
1 year	69th	96th
3 years	98th	96th
5 years	100th	97th
10 years	100th	100th

3.8 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.

3.9 This apparent stalling of improvement to investment returns can be clearly attributed to recent negative returns of the Fund's private equity and infrastructure holdings which are denominated in US dollars and Euro which have weakened against sterling. It must be remembered that almost 20% of Brent Pension Fund's assets are held in unquoted Private Equity and Infrastructure investments which continue to remain relatively immature and in their investment periods. The values of these investments do not change continuously in the way quoted investments do, so that their recent investment performance may not reflect their true underlying worth. Their real performance can only be assessed when distributions are made to investors in future years as the funds realise their assets.

3.10 It should be noted that the Fund's wider investments are beginning to deliver some solid performances over 1 Year relative to other LGPS schemes, e.g., Fixed Income 10th nationally, UK Equities 36th nationally, and UK Property 48th nationally. However, the Fund's strongly positive publicly quoted equity return for the year ended 31 December 2013 of 20.1% has been dragged down significantly by the return on its Alternative Investments which have delivered an average annual return of only 3.2%.

3.11 This cautions against reading too much into the 1 Year performance statistics, which is expected to show considerable improvement as at 31 March 2014 when updated audited figures in respect of Private Equity and Infrastructure become available.

3.12 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.

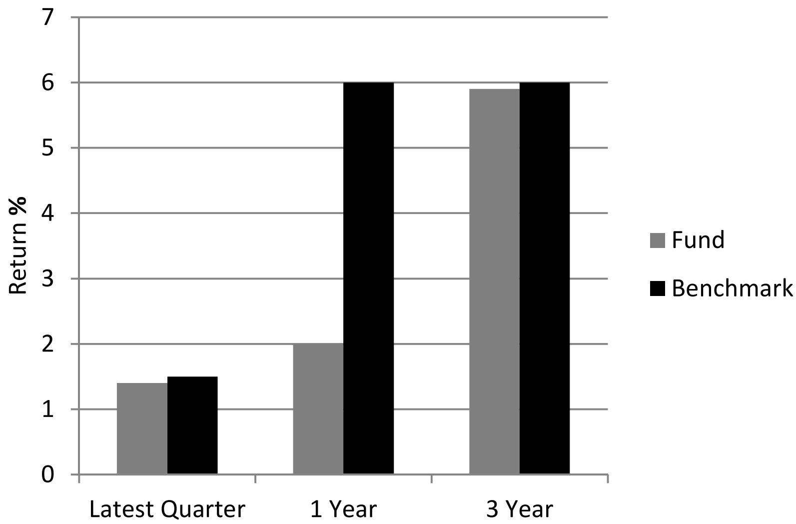
Table 1: Asset allocation as at 31 December 2013 compared to the benchmark

Market (1)	Market Value 31/12/13 £M (2)	Market Value 31/12/13 % (3)	WM LA Average 31/12/13 % (4)	Fund Benchmark 31/12/13 % (5)	Market Value 30/9/13 £M (6)	Market Value 30/9/13 % (7)	WM LA Average 30/9/13 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	83.2	14.8	15.2	15.0	82.1	15.0	16.9
Equities							
UK – Legal & General	85.7	15.2	28.1	13.0	81.3	14.8	24.4
UK - Smaller Companies Fund Henderson	25.8	4.6	*	4.0	24.1	4.4	*
O/seas – developed Legal & General	134.8	24.0	33.6	22.0	127.7	23.3	32.6
O/seas – emerging Dimensional	33.1	5.9	4.8	8.0	33.4	6.1	5.6
Property							
Aviva	34.6	6.2	6.9	8.0	33.8	6.2	7.1
Private Equity							
Capital Dynamics	70.0	12.4	3.7	10.0	70.0	12.7	4.2
Yorkshire Fund	1.1	0.2	*		1.1	0.2	*
Hedge Funds							
Fauchier	29.4	5.2	1.8	5.0	28.7	5.2	2.3
Infrastructure							
Alinda	15.5	2.8	0.9	6.0	15.9	2.9	1.2
Capital Dynamics	16.1	2.8	*		16.6	3.0	*
Henderson PFI Fund II	1.1	0.2	*		1.1	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	44.5	7.9	1.9	8.0	33.4	6.1	2.4
Cash	-12.4	-2.2	3.1	1.0	-0.8	-0.1	3.3
Total	**562.5**	**100.0**	**100.0**	**100.0**	**548.4**	**100.0**	**100.0**

Manager performance relative to benchmark

3.13 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of December 2013.

Henderson – Total Return Bond Fund

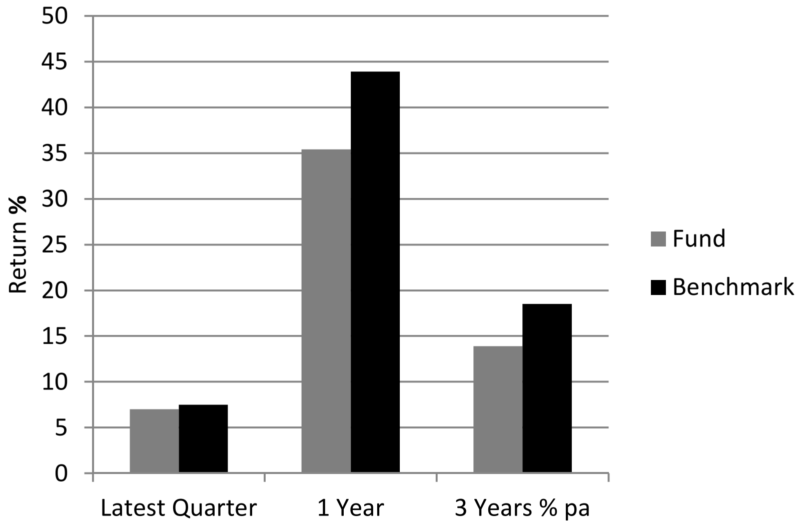


Whilst steady positive returns are being delivered, Henderson's Total Return Bond Fund performance is lagging behind its 6% p.a. absolute return benchmark in respect of the latest quarter and 1 Year periods. However, over the 3-year period the Total Return Bond Fund is broadly achieving its performance target.

The performance over the latest quarter was positive, with high yield corporate bonds contributing to this positive performance. In developed market government bonds, overall exposure to fixed rate securities remained very low and consequently the poor performance of this sector did not impact returns. Emerging Market (EM) bond holdings were concentrated in countries with strong economic fundamentals (such as Mexico). Consequently, the fund was largely insulated from the ongoing weakness in EM debt markets.

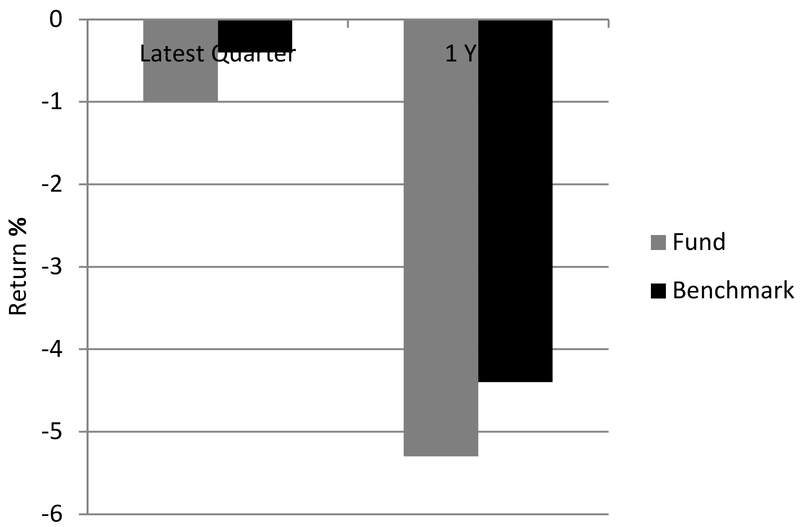
In terms of the outlook for the coming period, corporate bonds are expected to continue to out-perform government debt against a backdrop of strong demand for yield, low default rates, and good corporate liquidity, although valuations in most sectors are less compelling than a year ago.

Henderson – UK & Irish Smaller Companies Fund



Henderson's UK & Irish Smaller Companies Fund has delivered strongly positive returns over recent periods – up 7.0% over the latest quarter, 35.4% over the last 12 months and an annualised 13.9% p.a. over the past 3 years. The Fund aims to achieve a long-term return in excess of the long-term return that is typically achieved from UK & Irish Smaller Companies equity markets. This is measured by comparing its investment performance to the FTSE SmallCap Index, against which it has under-performed over recent periods.

Dimensional – Emerging Markets Value Fund



Over the longer term, Emerging Market equities have higher expected returns than risk free assets, but given the greater volatility of this particular asset class the experience in shorter periods including periods of one year can sometimes be negative.

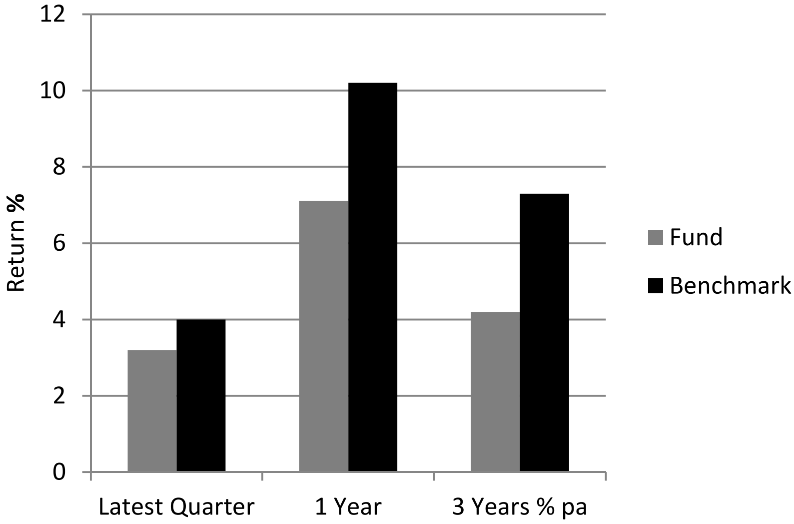
Emerging markets as a whole lagged developed markets for the fifth consecutive quarter as investors considered the implications of changing economic growth and inflation prospects.

In 2013, energy and resource laden emerging markets struggled in an uncertain global macroeconomic environment with concerns over a slowing Chinese economy, an outlook of reduced stimulus from the US Federal Reserve and stalling European economies. These sources of demand were not providing a positive outlook for many export oriented emerging market economies that were experiencing challenging economic conditions domestically, for example, high domestic inflation and currency account deficits.

During 2013, the British pound strengthened against most emerging market currencies which have impacted on returns by an estimated -7.2% over the year. It should be noted that decades of academic research has shown that currency movements are essentially random in the short term and un-hedged and hedged equity portfolios have similar volatilities. Given that there is a direct cost of currency hedging which directly reduces the expected return of currency hedged equity portfolios over the longer term, Dimensional does not hedge its Emerging Markets Value Fund.

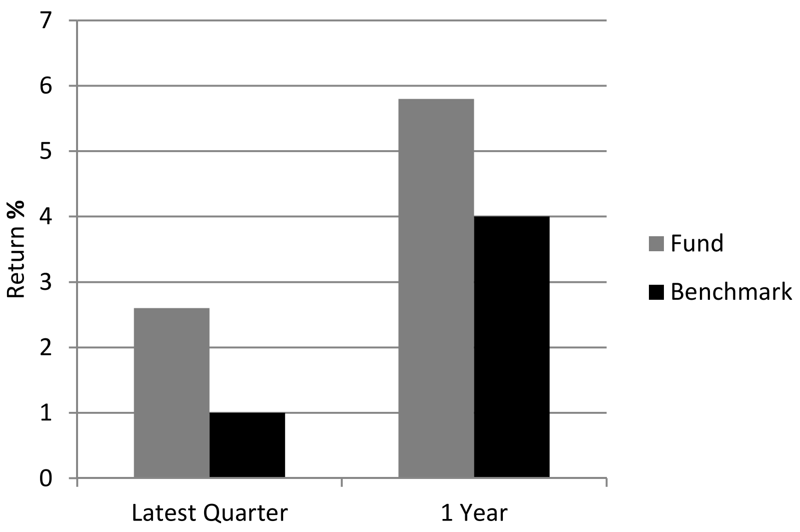
The absolute performance of the Dimensional Emerging Markets Value Fund of -5.3% net of fees was below the benchmark MSCI Emerging Markets Index of -4.4%.

Aviva – Property



The Aviva property portfolio aims to maximise total return through a combination of capital growth and income return. Whilst steady positive returns are being delivered, Aviva's property portfolio performance continues to lag behind its IPD All Properties Index based benchmark in respect of the latest quarter, 1 Year and 3 Year periods. The pooled funds that Aviva invests in are relatively illiquid; the costs of liquidating and investing with a new property manager would be significant. Whilst the UK Real Estate Fund of Funds (market value £29.4m) is an open-ended investment, the European Real Estate Fund of Funds (market value £5.2m) is closed to new investors and will be fully liquidated by 2018.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) significantly out-performed its Base Rate plus 3.5% p.a. benchmark in respect of the latest quarter and over 1 Year. The Baillie Gifford DGF was the Fund's newest investment acquisition in June 2012.

3.14 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 December 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31/12/13			Year Ended 31/12/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	1.4	1.5	-0.4	2.0	6.0	-0.2	Absolute return 6% p.a.
Equities							
UK – Legal & General	5.5	5.5	6.0	21.0	20.8	24.0	FTSE All Share
UK - Small Companies Henderson	7.0	7.5	*	35.4	43.9	*	FTSE Small Cap
O/seas – developed Legal & General	5.6	5.6	4.0	24.9	25.0	20.1	FTSE Dev World ex UK
O/seas – emerging Dimensional	-1.0	-0.4	0.0	-5.3	-4.4	1.5	MSCI Emerging Markets
Property							
Aviva	3.2	4.0	4.2	7.1	10.2	9.5	IPD All Properties Index
Private Equity							
Capital Dynamics	-5.6	2.0	1.6	4.3	8.0	9.3	Absolute return 8% p.a.
Yorkshire Fund Managers	0.0	2.0	*	0.0	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	2.7	1.3	1.7	13.0	5.5	6.7	LIBOR + 5% p.a.
Infrastructure							
Alinda	-2.2	2.0	0.4	-0.6	8.0	3.0	Absolute return 8% p.a.
Capital Dynamics	-8.5	2.0	*	-6.3	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	0.1	2.0	*	-2.7	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	2.6	1.0	2.1	5.8	4.0	8.5	Base Rate + 3.5% p.a.
Cash	0.1	0.1	0.2	0.5	0.5	1.6	Base Rate
Total	**2.9**	**3.2**	**3.7**	**11.6**	**13.0**	**15.0**	

3.15 The Fund's overall return of 2.9% under-performed its quarterly benchmark of 3.2%. Whilst Diversified Growth and Hedge Funds out-performed their respective benchmarks, UK Smaller Companies, Emerging Market Equities, Property, Private Equity and Infrastructure under-performed against their benchmarks.

3.16 The Fund's quarterly return of 2.9% was lower than the WM Local Authority average of 3.7% due to Brent's asset allocation with its relatively low exposure to Equities which had an overall positive quarter and high exposure to Alternatives which suffered from a generally negative performance. The Fund out-performed the WM Local Authority average in the asset classes of Fixed Income, Overseas Equities, Hedge Funds and Diversified Growth. The Fund under-performed the WM Local Authority average in the asset classes of Emerging Market Equities, Property, Private Equity and Infrastructure.

3.17 Over one year, the Fund return of 11.6% was below its benchmark of 13.0%. Whilst Hedge Funds and Diversified Growth out-performed their respective benchmarks, Fixed Income, UK Smaller Companies, Property, Emerging Market Equities, Private Equity and Infrastructure under-performed against their benchmarks.

3.18 The Fund's annual return of 11.6% was lower than the WM Local Authority average of 15.0% due to Brent's asset allocation with its relatively low exposure to Equities which had a strongly positive year and high exposure to Alternatives which benefited from a moderate performance.The Fund out-performed the WM Local Authority average in the asset classes of Fixed Income, Overseas Equities and Hedge Funds. The Fund under-performed the WM Local Authority average in the asset classes of Emerging Market Equities, Property, Private Equity, Infrastructure and Diversified Growth.

Compliance with statutory investment limits

3.19 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	**Statutory limit under regulation**	**Actual exposure at 31 Dec 2013**	**Compliant Yes / No**
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	24%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	18%	Yes

Outstanding contractual commitments

3.20 The Brent Pension Fund has not entered into any new investments in private equity/infrastructure since November 2011 and whilst significant capital call payments have been made over the past two years, the outstanding contractual commitments on existing investments continue to remain significant as follows:

	31 March 2012 £'000	31 March 2013 £'000	31 Dec 2013 £'000
Capital Dynamics	77,545	54,077	39,594
Alinda	10,435	10,636	6,779
Yorkshire Fund Managers	1,113	266	60
Total	**89,093**	**64,979**	**46,433**

3.21 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise. It also prevents the Fund from moving to its strategic allocations in Property and limits the extent to which any new investments can be considered at the present time.

Indicative performance of the Fund since December 2013

3.22 Following the quarter ended 31 December 2013, the Fund has decreased in value by an estimated £8.5m as at 31 January 2014 following a sharp downturn in stock market values (although there has been some degree of recovery during February 2014):

	As at 31 January 2014 £M	As at 31 December 2013 £M	Movement
Fixed Income			
Henderson	83.1	83.2	↓
Equities			
UK Legal & General	83.1	85.7	↓
UK - Small Companies Henderson	26.2	25.8	↑
O/seas – Developed Legal & General	130.9	134.8	↓
O/seas – Emerging Markets Dimensional	31.0	33.1	↓
Property			
Aviva	34.6	34.6	=
Private Equity			
Capital Dynamics	70.0	70.0	=
Yorkshire Fund Managers	1.1	1.1	=
Hedge Funds			
Fauchier	-	29.4	↓
Infrastructure			
Alinda	15.5	15.5	=
Capital Dynamics	16.1	16.1	=
Henderson PFI Fund II	1.1	1.1	=
Pooled Multi Asset			
Baillie Gifford DGF	44.1	44.5	↓
Cash	17.2	-12.4	↑
Total	**554.0**	**562.5**	↓

3.23 All monies have been returned from the Fauchier Fund of Hedge Funds investment, and Cash has been returned to a positive balance. Over the longer term, this Cash will be required to meet the on-going capital drawdown commitments to Private Equity and Infrastructure which stood at an estimated £46.4m as at 31 December 2013 – see paragraph 3.20.

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

8.1 Henderson Investors – December 2013 quarter report
Legal & General – December 2013 quarter report
Dimensional Asset Management – December 2013 quarter report
Baillie Gifford – December 2013 quarter report

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 1472 at Brent Civic Centre.

CONRAD HALL	**ANTHONY DODRIDGE**
Chief Finance Officer	**Head of Exchequer and Investment**

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q4 2013

17 January 2014

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BRENT COUNCIL PENSION FUND
Quarterly Review, October – December 2013

The Economy

1. Growth forecasts for 2013 in UK and US have been revised further upwards, while the UK is expected to grow by 2.7% in 2014 – far in advance of earlier estimates. In the UK, rising personal consumption has been the major factor behind this pick-up in growth, but in the absence of any rise in real wages, it is questionable how long consumers will be able to continue on this path. Inflation has been reducing in all regions except Japan (where the target is 2% inflation); in the Eurozone, however, the very low inflation figure of 0.7% prompted the European Central Bank to lower interest rates from 0.5% to 0.25% in November, to avert the threat of deflation.
[In the table, bracketed figures show the estimates at the time of my previous report]

Consensus real growth (%)					**Consumer prices latest (%)**
	2011	**2012**	**2013E**	**2014E**	
UK	+0.9	-0.1	**+1.5 (+1.4)**	**+2.7 (+2.3)**	+2.0 (CPI)
USA	+1.7	+2.2	+1.8 (+1.6)	+2.7 (+2.7)	+1.2
Eurozone	+1.5	-0.5	-0.4 (-0.3)	+1.0 (+1.0)	+0.8
Japan	-0.7	+1.9	+1.7 (+1.8)	+1.5 (+1.6)	+1.6
China	+9.2	+7.8	+7.7 (+7.5)	+7.3 (+7.3)	+2.5

[Source: The Economist Jan 11th, 2014]

2. In his Autumn Statement on December 5th, George Osborne was able to forecast a budget deficit of £111bn this fiscal year (from £120bn previously expected) as a result of the improvement in economic growth. The deficit is forecast to reduce to £96bn in 2014/15 and to £79bn in 2015/16, and even to turn into a small surplus in 2018/19. Other measures included an earlier raising of the state pension age to 68 (in the mid-2030's), the freezing of fuel duty for the remainder of this Parliament, and increasing the personal allowance to £10,000 from April 2014.

3. At the end of November the UK government announced that under the 'Funding for Lending' programme banks must only lend to companies, and no longer lend on property. UK unemployment data for November showed a fall of 100,000 to 2.4m, and a reduction of the unemployment rate to 7.4%. Since the Governor of the Bank of England has mentioned a rate of 7% as a possible trigger for interest rate rises, it now appears that his 'forward guidance' may be due for a reassessment. The UK inflation rate, as measured by the CPI, fell to 2% in December, hitting its target rate after four years of above-target rises. This suggests that there is no imminent danger of 'over-heating' in the present economic recovery.

4. In December, strong US industrial production data, and a reduction in the rate of unemployment to 7.0%, prompted the Federal Reserve to announce that it would be 'tapering' its $85bn per month bond-buying programme by $10bn in January, and by a further $10bn each subsequent month, so that the QE programme would end in 2014.

Markets

5. **Equity** markets in the US and Europe ended the year strongly, while Pacific Basin and Emerging Markets were flat or slightly down. For the full year there has been a wide divergence between the performance of Emerging Markets and Asia Pacific ex-Japan (affected by relatively weak currencies as well as slowing economies) when compared with the gains of 20% and more in Japan, Europe and North America. In the UK, mid- and small-cap shares rose slightly more during the 4th quarter than the large-cap FTSE 100 stocks.

	Capital return (in £, %) to 31.12.13		
Weight %	**Region**	**3 months**	**12 months**
100.0	**FTSE All-World Index**	**+ 4.5**	**+ 17.9**
51.4	FTSE All-World North America	+ 6.9	+25.6
8.4	FTSE All-World Japan	- 0.1	+22.6
11.5	FTSE All-World Asia Pacific ex Japan	-0.4	- 1.7
17.5	FTSE All-World Europe (ex-UK)	+ 4.9	+19.8
8.1	FTSE All-World UK	+ 4.4	+14.6
8.9	FTSE All-World Emerging Markets	-1.0	- 8.1

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

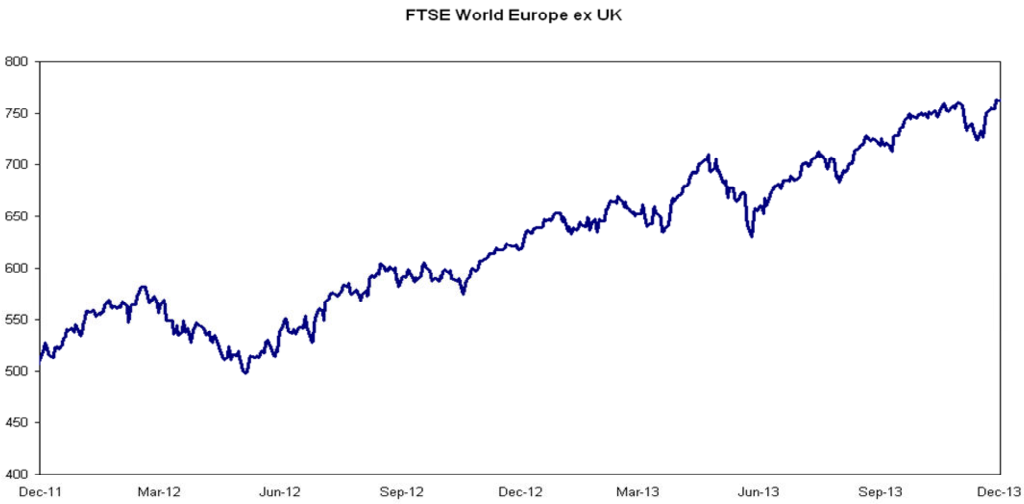
6. All industry groups except Utilities registered gains in the quarter, but for the full year it was noticeable that Oil & Gas, Utilities and Basic Materials performed considerably worse than the other sectors.

Capital return (in £, %) to 31.12.13		
Industry Group	**3 months**	**12 months**
Health Care	+5.6	+29.9
Consumer Services	+5.9	+28.8
Industrials	+6.2	+24.5
Technology	+9.0	+23.0
FTSE All-World	**+4.5**	**+17.9**
Financials	+4.2	+17.8

Telecommunications	+4.4	+17.1
Consumer Goods	+2.2	+16.3
Oil & Gas	+2.7	+8.7
Utilities	-0.9	+4.7
Basic Materials	+2.0	- 4.9

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

Despite the uncertainties surrounding the euro, shares in Continental Europe have risen strongly over the past two years (see graph below).

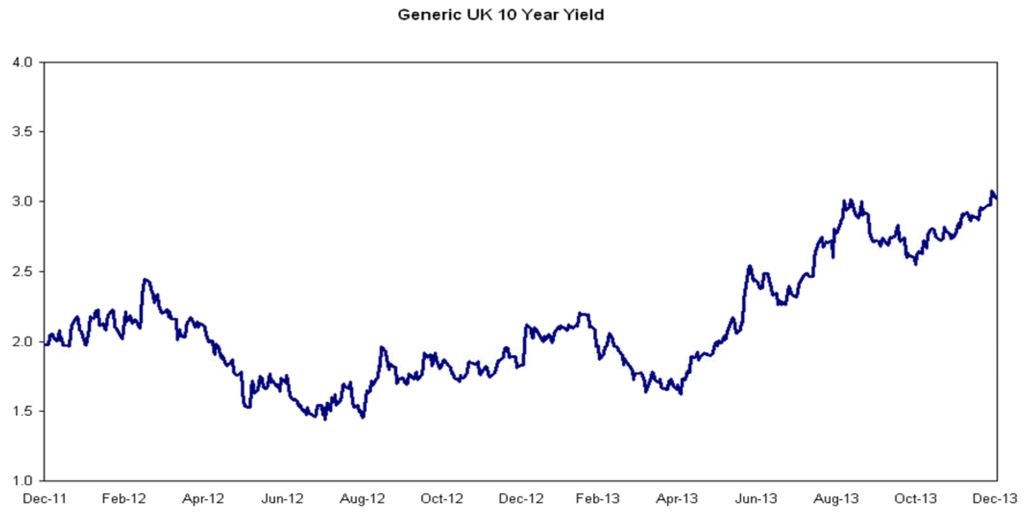


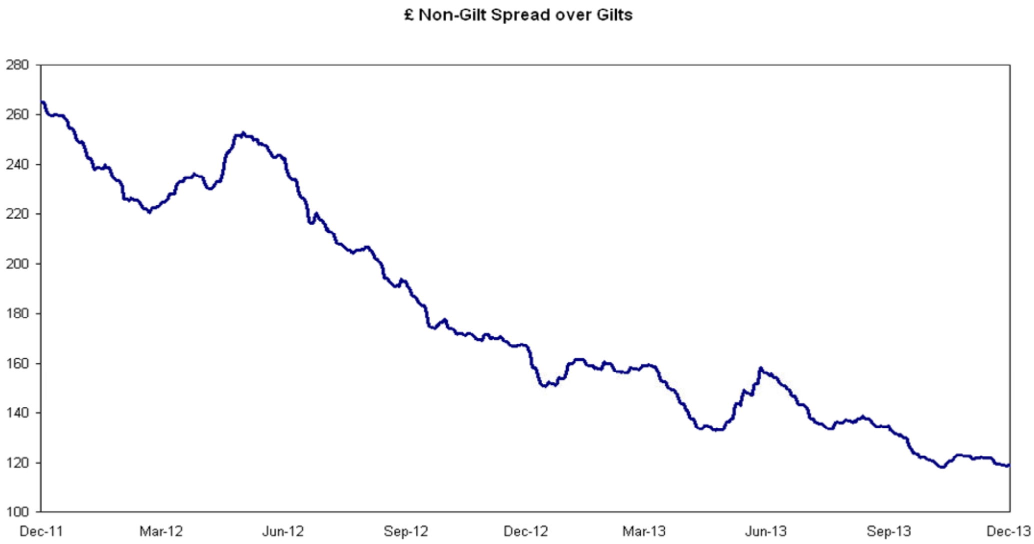
7. **Government Bond** yields rose again in the 4th quarter, as economic recovery became more established in the US and UK, while the confirmation that tapering would begin in January 2014 gave a further upward push to yields in December.

10-year government bond yields (%)					
	Dec 11	**Dec 12**	**June 2013**	**Sept 2013**	**Dec 2013**
US	1.88	1.76	2.49	2.62	3.03
UK	1.98	1.85	2.45	2.73	3.04
Germany	1.83	1.32	1.73	1.78	1.94
Japan	0.98	0.79	0.86	0.69	0.74

[Source: Financial Times]

Meanwhile, the UK corporate bond market has been rising strongly relative to gilts during the past two years. The graphs below show that the non-gilt spread has narrowed by more than the rise in gilt yields over the past two years – so that the average corporate bond yield has actually fallen during this period.





Currencies

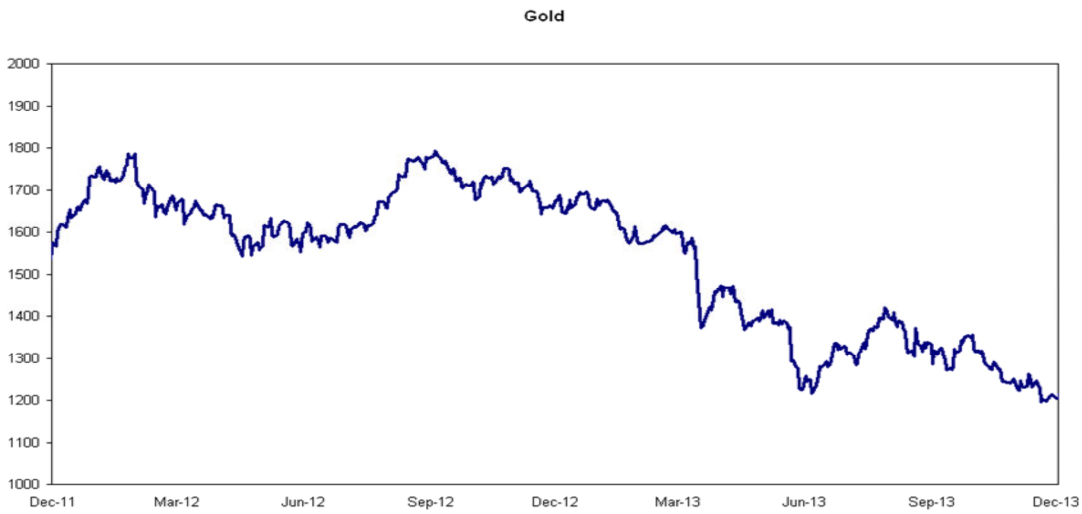
8. The pound rose to its highest level for the year against the dollar, although there was little change in the parity compared with its end-2012 level. The yen continued to weaken against all the other major currencies.

				£ move	
	31.12.12	**30.09.13**	**31.12.13**	**3-month**	**12-month**
$ per £	1.625	1.619	1.656	+ 2.3%	+ 1.9%
€ per £	1.233	1.196	1.202	+ 0.5%	- 2.5%
Y per £	140.5	158.9	174.1	+ 9.6%	+23.9%

The pound has gained 45% against the yen in the past two years, as shown in the graph below.

Commodities

9. Gold lost a further 10% during the quarter, to complete a year when it fell by almost 30% in dollar terms. The prices of copper and oil were little changed in the quarter.



Property

10. The UK market has continued to strengthen, with an overall total return of 4.7% for the 3 months to end-December, according to the IPD UK Monthly Property Index. This means that the total return for the full year was +10.9% - the best figure for several years. The bulk of this gain was achieved in the second half of the year, pointing to an accelerating market. By sector the annual returns were:

Retail	**+ 7.6%**
Office	**+14.4%**
Industrial	**+14.2%**

Outlook

11. The early signs of economic recovery in US and Europe have been well received by equity markets, while bonds have eased slightly without falling as rapidly as some had feared. The major influence on equity and bond markets in the next few months is likely to be the pace of tapering by the Federal Reserve; an increase in the planned rate of reduction of $10bn per month would probably push bond yields higher, and may cause capital to flow out of Emerging Markets, as was seen in May and June of last year. Rises in short-term interest rates in US or UK still look unlikely for the duration of 2014, until economic growth is firmly established.

12. I do not expect to see much near-term appreciation in developed market equities after their recent run, as it would only take an escalation of political unrest in the Middle East, or renewed strains in the Eurozone currency, to shake equity markets out of their current state of calm optimism

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[All graphs supplied by Legal & General Investment Management]