Brent	**Pension Fund Sub-Committee** 21 July 2015 **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 March 2015. 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) The Fund increased in value by 4.1% from £625.5m to £655.3m during the quarter ended 31 March 2015, underperforming its quarterly benchmark of 4.3%. During the quarter, Sterling fell by 7.3% against the US dollar, but rose by 7.3% against the euro. On a net basis (given the holdings of both US$ and € denominated assets, the change in the value of sterling would not have had a significant impact).

b) The single-largest contributor to this positive return during the quarter was again Global Equities (ie. excluding the UK).

c) The best-performing asset in percentage terms was Alinda Partners, which increased by 9.5%.

d) The main disappointment was the Private Equity Fund of Fund holding, where preliminary valuations indicated that there was no material increase in the value of the holdings.

e) The 12-month return as at 31 March 2015 was 10.3%, marginally lower than the benchmark return of 10.8%.

f) The Fund return for the 3 years ended 31 March 2015 is an annualised 9.9% p.a., which is *ahead* of the benchmark return of 9.6%.

g) The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2015 is shown below:

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	10.3 %	10.8%	N/A
3 years (per annum)	9.9%	9.6%	N/A
5 years (per annum)	7.2%	7.7%	N/A

2. RECOMMENDATION

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 31 March 2015

3.1 The world was in thrall to what appears to have been the final phases of the global bond market rally, with particular focus on the eurozone, where yields went into negative territory for many longer-dated government bonds. The larger-than-expected QE programme was announced, but not implemented until March 15th.

3.2 The UK's FTSE 100 rose by 4.7%, despite the uncertainty generated by the General Election. Economic data continued to be supportive of a narrative of economic recovery and growth.

3.3 In the US, the strong USD continued to weigh on international earnings. Market participants appeared to focus more on the task of parsing statements issued by the Fed, than on analysing fundamentals. GDP growth in 2014 was reported to be 2.4%, which does not give a clear indication of whether or not a rate hike in the US is imminent. US markets rose by 6.4% in the quarter.

3.4 The combination of a falling € ahead of QE (which boosts exports), plus an improved performance in credit creation metrics, boosted investor confidence in the eurozone. Markets duly rose by 10.8%, although much of this was the currency effect (the performance expressed in US$ was considerably more muted).

3.5 Emerging markets rose by 7.4% over the quarter. The pace of the US$ appreciation slowed, and so the panic over the speed of the rise of the US$ abated to a large extent. (Many emerging market entities had taken out US$ loans to invest in emerging markets, so US$ strength has a negative impact on EM currencies and asset prices, as investors scramble to unwind the "carry trades"). The Russian market rebounded from lows and the Chinese market gathered steam, as the government-sponsored equity rally continued.

3.6 A market review for the quarter ended 31 December 2014, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.8 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 30 Dec 2014	Period ended 31 Mar 15
1 year	80th	92nd
3 years	87th	94th
5 years	97th	97th
10 years	100th	100th

3.9 The comparative statistics show that the Fund has been one of the lower performing LGPS funds for a period of many years.

3.10 The Fund has under-performed over the past few years, largely due to its lower weighting in equities (49% of the fund, compared to the Local Authority average of 63%). As equity markets have become less buoyant, this has become less of a reason for under-performance.

3.11 The main reason for poor performance in 2014 was the low return of the Total Return Bond Fund. The 16% fund weighting is material and the short duration of the portfolio meant that this holding largely missed out on record government bond price gains.

3.12 The large weighting in the Private Equity Fund of Funds has been a contributor to the fund’s underperformance in recent years. The weighting is down to 14% of the portfolio due to a combination of underperformance and the fact that the investment has now become a net distributing asset.

3.13 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 2014 compared to the benchmark

Assets (1)	Market Value 31/12/14 £M (2)	Market Value 31/12/14 % (3)	WM LA Average 31/12/14 % (4)	Fund Benchmark 31/3/15 % (5)	Market Value 31/3/15 £M (6)	Market Value 31/3/15 % (7)
Fixed Income						
Henderson – Total Return Bond Fund	84.2	13.5	16.7	15.0	86.0	13.2
Equities						
UK – Legal & General	86.7	13.9	34.0	15.0	90.8	13.6
UK - Smaller Companies Fund Henderson	25.8	4.1	*	4.0	26.0	4.2
O/seas – developed Legal & General	151.7	24.3	26.2	24.0	163.8	24.2
O/seas – emerging Dimensional	38.9	6.2	4.2	8.0	40.7	6.1
Property						
Aviva	36.7	5.9	7.3	8.0	37.2	6.2
Private Equity						
Capital Dynamics	82.6	13.2	2.9	10.0	92.8	14.3
Yorkshire Fund	1.1	0.2	*		0.9	0.2
Infrastructure						
Alinda	27.0	4.3	2.5	6.0	29.8	5.2
Capital Dynamics	9.4	1.5	*		0.0	0.0
Henderson PFI Fund II	1.3	0.2	*		0.9	0.2
Pooled Multi Asset						
Baillie Gifford DGF	67.1	10.7	3.5	8.0	69.4	11.2
Cash	12.2	2.0	2.7	2.0	17.8	3.0
Total	**607.0**	**100.0**	**100.0**	**100.0**	**655.1**	**100.0**

3.14 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 March 2015.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31/12/14			Quarter Ended 31/5/15			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	-1.4	1.5	-0.2	2.1	1.5	2.8	Absolute return 6% p.a.
Equities							
UK – Legal & General	0.6	0.6	0.9	4.7	4.7	4.9	FTSE All Share
UK - Small Companies Henderson	-1.2	-0.9	*	0.8	3.3	*	FTSE Small Cap
O/seas – developed Legal & General	5.4	5.4	3.7	8.0	8.0	8.2	FTSE Dev World ex UK
O/seas – emerging Dimensional	-2.7	-0.7	0.2	4.4	7.4	5.6	MSCI Emerging Markets
Property							
Aviva	3.1	4.6	*	3.0	2.8	2.8	IPD All Properties Index
Private Equity							
Capital Dynamics	1.9	1.9	*	*	*	*	Absolute return 8% p.a.
Yorkshire Fund Managers	*	*	*	*	*		Absolute return 8% p.a.
Infrastructure							
Alinda	10.8	1.9	*	9.5	2.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	0.8	1.0	*	3.2	1.0	*	Base Rate + 3.5% p.a.
Cash	0.1	0.1	*	0.0	0.1	*	Base Rate
Total	**2.1**	**2.3**	**3.1**	**4.1**	**4.3**	**5.6**	

3.15 The Fund's return of 4.1% under-performed its benchmark of 4.3% in 1Q15.

Compliance with statutory investment limits

3.17 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 2014	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%	19%	Yes

Outstanding contractual commitments

3.18 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:

CD: 28,001,677

	30 Sept 2014 £'000	31 Dec 2014 £'000	15 Mar 20145 £'000
Capital Dynamics	30,404	28,524	28,002
Alinda	3,231	2,564	2,000
Yorkshire Fund Managers	0	0	0
Total	**33,632**	**33,632**	**30,002**

3.19 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.

4. UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

4.1 Some 29 of London's 33 Authorities have signed up to the CIV. Much of the infrastructure has been put into place; in December 2014, an Asset Service Provider (Northern Trust) was appointed. Much of the work carried out by London Councils and the Technical Sub Group (TSG). The application to the Financial Conduct Authority (FCA) is on the verge of being submitted, once key hires have been made.

4.2 The timetable has slipped, as mentioned at the last Pension Fund Sub Committee. Fund authorisation is set for autumn 2015 with the aim of having assets under management before Christmas.

4.3 On current projections, there will be four managers at launch, with 15 sub-funds, covering 24 boroughs. The projected fee saving at launch is £2.6mn, which will grow over time as more funds migrate to the CIV, and/or authorities switch to funds which are on the CIV.

4.4 It remains unclear what the final outcome of the latest Government Consultation over LGPS reform will be, given the national political cycle. If successful, the CIV will address many of the issues raised during the Consultations process.

5. FINANCIAL IMPLICATIONS

5.1 These are included within the report.

6. DIVERSITY IMPLICATIONS

6.1 None.

7. STAFFING IMPLICATIONS

7.1 None.

8. LEGAL IMPLICATIONS

8.1 None.

9. BACKGROUND INFORMATION

9.1 Henderson Investors – September 2014 quarter report
Legal & General – September 2014 quarter report
Dimensional Asset Management – September 2014 quarter report
Baillie Gifford – September 2014 quarter report

10. CONTACT OFFICERS

10.1 Persons wishing to discuss the above should contact the Investment and Pensions Section, on 020 8937 1472 at Brent Civic Centre.

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q1 2015

3 June 2015

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BRENT COUNCIL PENSION FUND
Quarterly Review, January – March 2015

Economy

1. The slowdown in the US economy continued in Q1, when the rate of growth was only 0.2% *annualised.* Combined with slowing jobs data, this appeared likely to delay the timing of the first rise in US interest rates. The UK reported just 0.3% growth in Q1, compared with +0.6% in the previous quarter. The Eurozone is showing signs of a slow recovery, while China's official growth rate of 7% p.a. is looking to be at odds with other measures of activity within the economy. The fall in the oil price has (temporarily) reduced inflation to zero in the UK and North America, thereby joining the Eurozone - where weak consumer demand has been the major factor.

(In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in January)

Consensus real growth (%)						**Consumer prices latest (%)**
	2012	**2013**	**2014**	**2015E**	**2016E**	
UK	-0.1	+1.7	+2.8	+2.5 (+2.7)	+2.4	-0.1 (CPI)
USA	+2.2	+1.9	+2.4	+2.6 (+3.1)	+2.5	-0.1
Eurozone	-0.5	-0.4	+0.8	+1.5 (+1.1)	+1.9	+0.3
Japan	+1.9	+1.7	+0.3	+0.8 (+1.0)	+1.5	+2.3
China	+7.8	+7.7	+7.4	+6.9 (+7.0)	+6.8	+1.4

[Source of estimates: The Economist, May 9th, 2015]

2. In the UK Budget on March 18th, George Osborne relaxed some of the austerity measures for 2019 which he had announced in the Autumn Statement. The longer-term spending forecasts were also helped by estimated interest savings of £41bn over the next five years due to the lower costs of servicing government debt. Measures to help savers included the waiver of tax on the first £1000 of interest income, above-inflation rises in the income tax thresholds, and matching finance for those saving via ISAs for a deposit on their first home. The Budget as a whole was seen as paving the way for the impending General Election.

3. The European Central Bank embarked on its programme of Quantitative Easing in March, intending to purchase €60bn of government and private sector bonds per month until September 2016. This has led to the weakening of the Euro, which has in turn boosted the outlook for European companies which export outside the Eurozone.

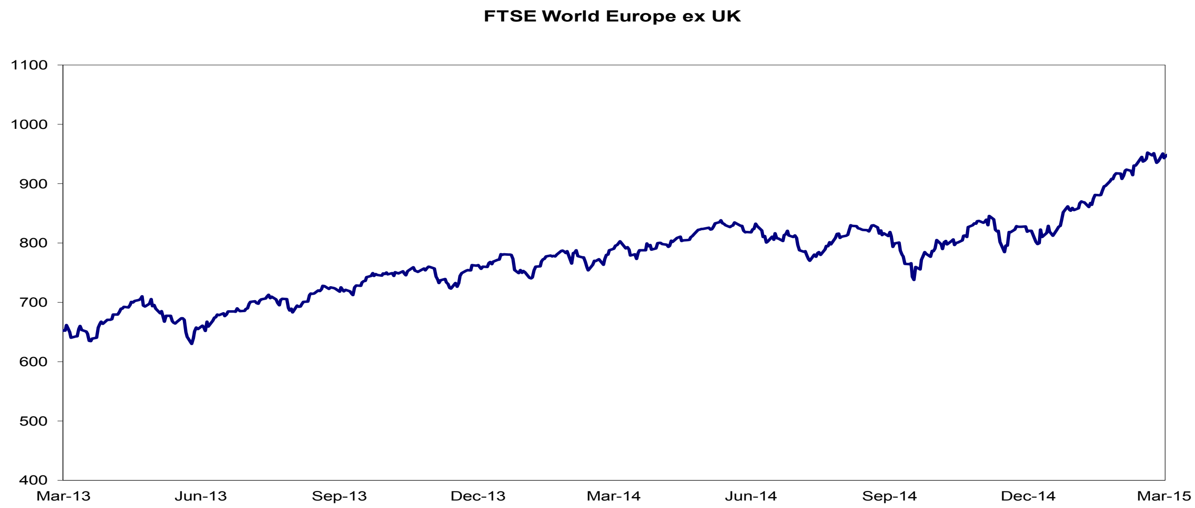
4. In February the new Greek government was granted a four-month extension to its bailout on the condition that it agreed suitable economic reform measures. These have not yet been forthcoming to the satisfaction of the European lending institutions, and although the combative Greek Minister of Finance has been sidelined from the negotiations, it is still not clear how Greek will be able to meet its immediate repayment schedule.

Markets

5. **Equity** markets rose steadily through the quarter, although there were large regional differences. The UK continued to lag other markets, while Japan and Pacific Basin stocks were particularly strong. Continental European equities gained 10% in sterling terms, spurred on by the weaker Euro and the start of Quantitative Easing by the ECB.

	Capital return (in £, %) to 31.3.15		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+7.0**	**+16.2**
53.7	FTSE All-World North America	+5.4	+22.6
8.4	FTSE All-World Japan	+15.4	+24.7
11.9	FTSE All-World Asia Pacific ex Japan	+9.0	+16.5
16.2	FTSE All-World Europe (ex-UK)	+10.2	+3.5
7.0	FTSE All-World UK	+3.4	+2.8
9.1	FTSE All-World Emerging Markets	+6.7	+12.9

[Source: FTSE All-World Review, March 2015]



6. Health Care stocks were again buoyant on takeover activity in the sector; Oil & Gas

was still depressed by the weaker oil price, but Basic Materials regained some of the ground lost during 2014.

Capital return (in £, %) to 31.3.15		
Industry Group	**3 months**	**12 months**
Health Care	+12.6	+33.3
Technology	+6.6	+28.7
Consumer Services	+10.0	+26.1
Consumer Goods	+8.9	+18.5
FTSE All-World	**+7.0**	**+16.2**
Industrials	+7.7	+14.8
Financials	+5.2	+14.6
Telecommunications	+6.4	+11.1
Utilities	-0.6	+8.6
Basic Materials	+6.0	+1.8
Oil & Gas	+1.1	-9.5

[Source: FTSE All-World Review, March 2015]

7. Within the **UK equity** market, the mid- and small-cap sectors were relatively strong. The FTSE 100 Index crossed the 7,000 level for the first time, thereby surpassing the peak previously reached at the end of 1999.

(Capital only %, to 31.3.15)	3 months	12 months
FTSE 100	**+3.2**	**+2.6**
FTSE 250	**+6.2**	**+5.0**
FTSE Small Cap	**+5.3**	**+2.8**
FTSE All-Share	**+3.7**	**+3.0**

[Source: Financial Times]

8. **Government bond** yields in Europe and North America fell yet further during the quarter, as the table of 10-year yields below shows. At shorter durations, many bonds in Germany, Switzerland and elsewhere were actually offering *negative* yields to maturity. The ECB's QE programme and falling levels of inflation were the main contributory factors.

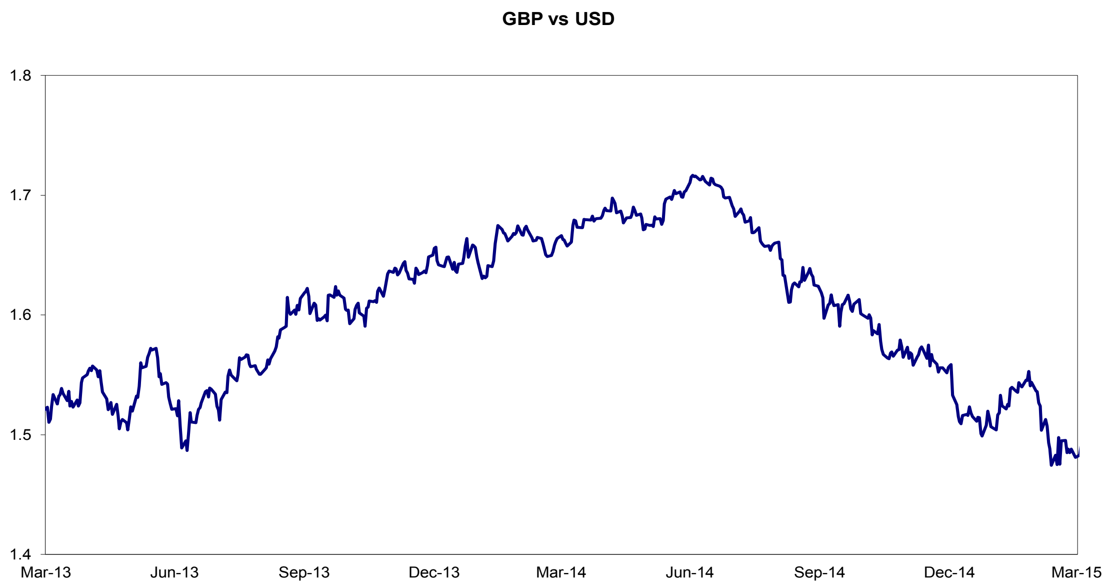
10-year government bond yields (%)					
	Dec 12	**Dec 13**	**Sept 2014**	**Dec 2014**	**Mar 2015**
US	1.76	3.03	2.49	2.17	1.94
UK	1.85	3.04	2.43	1.76	1.70
Germany	1.32	1.94	0.95	0.54	0.18
Japan	0.79	0.74	0.53	0.33	0.41

[Source: Financial Times]

Currencies

9. Expectations of an early rise in US interest rates pushed the dollar higher against all other currencies, although it has given back some of these gains during April as the Fed has indicated the first interest rate rise could be delayed somewhat. The Euro was extremely weak against sterling also, as fears of a Greek crisis resurfaced.

				£ move	
	31.3.14	**31.12.14**	**31.3.15**	**3m**	**12m**
$ per £	1.667	1.559	1.485	- 4.7%	- 10.9%
€ per £	1.210	1.289	1.382	+7.2%	+14.2%
Y per £	171.7	186.9	178.0	- 4.8%	+ 3.7%



Commodities

10. During January, crude oil prices continued their downward path, with Brent Crude falling as low as $47 per barrel, but by the end of March it had regained its end-December level of $55, and in April it advanced further to $65. Copper followed a similar course to oil, recovering strongly from its January lows.

Property

11. The **UK property** market again recorded strong growth in the quarter, but with Retail still lagging well behind Office and Industrial properties.

	3-month	12-month
All Property	**+ 3.0%**	**+18.3%**
Retail	**+ 1.9%**	**+13.3%**
Office	**+ 4.0%**	**+22.9%**
Industrial	**+ 3.6%**	**+22.7%**

[Source: IPD Monthly Index of total returns, March 2015]

Outlook

12. In April and May the price of oil has risen sharply, to a level almost 50% above its mid-January low. This in turn has caused government bond yields to rise from the extraordinarily low levels they had reached in March, and caused nervousness in equity markets. This may mark the start of the long-awaited 'normalisation' process in equity and bond markets.

13. Meanwhile, the intransigence of the Greek government in its negotiations over loan terms could come to a head shortly, and set off renewed fears of a break-up of the eurobloc.

14. The surprise overall majority of 12 achieved by the Conservative party in the UK General Election has removed the policy uncertainties which a coalition might have created, and the initial reaction of UK Equities was a 2.5% rise on the following day. Looking ahead, the Conservatives' pledge to hold an 'in-out' referendum on the UK's continuing membership of the EU is likely to create renewed uncertainty as 2017 approaches.

15. The pace of the rise in equity markets since the start of 2015 continues to be at odds with the extremely low level of sovereign bond yields – the former implying healthy growth in corporate profits, while the latter is more consistent with economic slowdown and muted inflation. At current levels, equity markets continue to look fully-valued.

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June 3rd, 2015

[All graphs supplied by Legal & General Investment Management]