 <b>Brent</b>	<p align="center"><b>Pension Fund Sub-Committee</b></p> <p align="center">28<sup>th</sup> June 2016</p> <p align="center"><b>Report from the Chief Finance Officer</b></p>
For Information	Wards Affected: ALL
<p align="center"><b>Quarterly monitoring report on fund activity: Quarter to March 2016</b></p>	

## 1. SUMMARY

- 1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2016. 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 1.9% from £662.3m to £675.9m during the quarter ended 31 March 2016. In the (calendar) year to 31 March 2016 the value of the fund has risen from £657m to £675.9m or by 2.6%.
  - b) There is a difference between the Fund performance reports (£674m) and the Statement of Accounts as the performance report does not include the cash contributions owed to or from the Fund or the initial capital investment in the CIV.
  - c) There were private equity distributions in the quarter of £3.3m.
  - d) There was a poor overall relative return (0.2%). Equity either had no overall return or declined (Henderson small Cos) while Baillie Gifford (pooled multi-assets) had a -1.1% relative return. Only infrastructure assets by Alinda shone with a 2.7% relative return.

## 2. RECOMMENDATIONS

- 2.1 Members are asked to note the investment report.

## 3. DETAIL

### **Economic and market background – quarter to 31 March 2016**

- 3.1 Growth slowed in 2015 and uncertainty in the global economy and specifically around differences in investor opinion surround Brexit has led to a lowering of forecasts for 2016. More detailed information is provided in the attached report by

the Independent Financial Advisor that is well worth reading for detailed understanding of the challenging investment climate.

- 3.2 World-wide equity markets, with the exception of Japan, continued their rebound and the continued weakness of sterling further powered the performance of overseas markets. Resource stocks led growth, while banks and life insurance saw continued negative capital returns.
- 3.3 Bond yields have reduced amid fears of slowing growth, weakening prospects of interest rate rises and inflation staying low for longer than previously anticipated. Negative interest rates for the Yen and Euro however did not have the anticipated weakening versus Sterling; in fact both have significantly strengthened over the last year.
- 3.4 Given the clear trend of slowing global growth, it appears there will be a move away from equities towards the safe havens of the government bond market.
- 3.5 The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2016 is shown below. There are some data quality issues. Therefore, the total Fund Return for 1 year is an internal estimate and the 3 years and 5 years are likely to slightly underestimate the rate of returns. While the Accounts should be materially correct, there are underlying issues with the performance data.

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	2.6%	2.4%	Unknown
3 years (per annum)	4.7%	6.7%	Unknown
5 years (per annum)	5.3%	6.7%	Unknown

- 3.6 A market review for the quarter ended 31 March 2016, written by the Independent Financial Adviser, is attached.

**Table 1: Asset allocation as at 31 March 2016 compared to the benchmark**

ASSET CLASS	31/12/2015 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/03/2016 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)	WM LA Average (%)
<b>Fixed Income</b> Henderson-Total Return Bond Fund	<b>86.4</b>	<b>0</b>	<b>0.1</b>	<b>86.5</b>	<b>12.8</b>	<b>15.0</b>	<b>-2.2</b>	<b>16.3</b>
<b>Equities</b> UK - L&G	87.7	0	-0.4	87.3	13.0			
UK Smaller Cos - Henderson	26.7	0	-0.4	26.3	3.9			
Overseas Developed - L&G	195.5	0	5	200.5	29.7			
<b>Equities - Total</b>	<b>309.9</b>	<b>0</b>	<b>4.2</b>	<b>314.1</b>	<b>46.6</b>	<b>45.0</b>	<b>1.6</b>	<b>60.1</b>
<b>Diversified Growth</b> Baillie Gifford	<b>68.8</b>	<b>0</b>	<b>0</b>	<b>68.8</b>	<b>10.2</b>	<b>21.0</b>	<b>-10.8</b>	<b>2.5</b>
<b>Property</b> UK - AVIVA	35.1	0	0.4	35.5	5.3			
Europe - AVIVA	3.6	0	0.1	3.7	0.5			
<b>Property - Total</b>	<b>38.7</b>	<b>0</b>	<b>0.5</b>	<b>39.2</b>	<b>5.8</b>	<b>0.0</b>	<b>5.8</b>	<b>9.1</b>
<b>Private Equity</b> Capital Dynamics	82.2	-3.1	6.7	85.8	12.7			
Yorkshire	0.8	-0.2	0	0.6	0.1			
<b>Private Equity Total</b>	<b>83.0</b>	<b>-3.3</b>	<b>6.7</b>	<b>86.4</b>	<b>12.8</b>	<b>10.0</b>	<b>2.8</b>	<b>4.5</b>
<b>Infrastructure</b> Alinda	30.6	0	1.9	32.5	4.8			
Capital Dynamics	10.1	0	0.3	10.4	1.5			
<b>Infrastructure Total</b>	<b>40.7</b>	<b>0</b>	<b>2.2</b>	<b>42.9</b>	<b>6.4</b>	<b>8.0</b>	<b>-1.6</b>	<b>4.7</b>
<b>Cash</b> In-House	<b>34.8</b>	<b>2.4</b>	<b>-1.1</b>	<b>36.1</b>	<b>5.4</b>	<b>1.0</b>	<b>4.4</b>	<b>2.8</b>
<b>Grand Total</b>	<b>662.3</b>	<b>-0.9</b>	<b>12.6</b>	<b>674.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>

### 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 Mar 16	Period ended 31 Dec 2015
1 year	Not Available	100 <sup>th</sup>
3 years	Not Available	96 <sup>th</sup>
5 years	Not Available	98 <sup>th</sup>
10 years	Not Available	100 <sup>th</sup>

- 3.8 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 March 2016.

**Table 2: Investment Returns in Individual Markets**

Investment Category	RETURNS								Benchmark/ Index Description	
	Qtr Ending 31/03/16					Qtr Ending 31/12/15				
	Fund %	Benchmark %	Relative Return %	WM Local Auth %		Fund %	Benchmark %	Relative Return %		WM Local Auth %
<b>Fixed Income</b>										
Henderson Total Return Bond Fund	0.3	1.0	-0.7	0.8		0.1	1.5	-1.4	0.2	Absolute Return 6% pa
<b>Equities</b>										
UK - Legal & General	-0.4	-0.4	0.0	-0.4		4.0	4.0	0.0	3.7	FTSE All Share
UK - Small Companies Henderson	-1.8	-0.6	-1.2	*		2.2	2.7	-0.5	*	FTSE Small Cap
O'seas Developed - Legal & General	2.6	2.6	0.0	2.4		9.0	9.0	0.0	8.6	FTSE Dev World ex UK
<b>Property</b>										
Aviva Investors	2.7	3.0	-0.3	1.6		2.7	3.3	-0.6	3.0	IPD All Properties Index
<b>Private Equity</b>										
Capital Dynamics	*	*	*	*		*	*	*	*	Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*	*		*	*	*	*	Absolute Return 8% pa
<b>Infrastructure</b>										
Alinda Capital Partners	4.6	1.9	2.7	4.8		4.2	1.9	2.3	0.3	Absolute Return 8% pa
Capital Dynamics	*	*	*	*		*	*	*	*	Absolute Return 8% pa
<b>Pooled Multi Asset</b>										
Baillie Gifford	-0.1	1.0	-1.1	0.3		2.5	1.0	1.5	1.0	Base Rate + 3.5% pa
<b>Cash</b>	1.9	0.1		*		0	0.1		*	Base Rate
<b>Total</b>	2.12	1.92	0.2			-2.3	-0.8	-1.5		

Source: WM (State Street)

NOTE: Relative return is calculated on a weighted basis and therefore is not the difference between the fund and benchmark returns

## Compliance with statutory investment limits

3.10 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 Mar 2016	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	33%	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**

- 3.11 The Brent Pension Fund has increased exposure in the Infrastructure fund. Significant capital call payments have been made over the past three years, the outstanding contractual commitments on existing investments follows:

	<b>30 Sep 2015 £'000</b>	<b>31 Dec 2015 £'000</b>	<b>31 Mar 2016 £'000</b>
Capital Dynamics	26,600	26,600	23,260
Alinda	3,000	20,600	16,992
Yorkshire Fund Managers	0	0	0
<b>Total</b>	<b>29,600</b>	<b>47,200</b>	<b>40,252</b>

- 3.12 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

## **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 Allenbridge Quarterly Report Quarter 1 2016  
Legal & General Quarterly Report March 2016

## **9. CONTACT OFFICERS**

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

**CONRAD HALL**  
**Chief Finance Officer**



QUARTERLY REVIEW PREPARED FOR

**Brent Council Pension Fund**

Q1 2016

29 April 2016

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**BRENT COUNCIL PENSION FUND**  
**Quarterly Review, January – March 2016**  
**Report by the Independent Financial Adviser**

**Economy**

1. For the full year 2015, GDP growth slowed in the UK and China relative to 2014, but improved in the Eurozone and Japan. The United States, meanwhile, maintained a 2.4% growth rate. It is noticeable, however, that forecasts for 2016 have been revised down in the past three months – for all regions except China – and growth is expected to be slower than in 2015 everywhere. It is this prospect which has depressed commodity prices and contributed to the sharp falls in equity markets in the opening weeks of 2016.

(In the table below, bracketed figures show the forecasts three months ago)

[Source of estimates: The Economist, April 9th, 2016]

<b>Consensus real growth (%)</b>						<b>Consumer prices latest (%)</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	
<b>UK</b>	+1.7	+2.8	+2.3	+2.0 (+2.2)	+2.1	+0.5(CPI)
<b>USA</b>	+1.9	+2.4	+2.4	+2.0 (+2.6)	+2.2	+1.0
<b>Eurozone</b>	-0.4	+0.8	+1.5	+1.4 (+1.7)	+1.6	-0.1
<b>Japan</b>	+1.7	+0.3	+0.6	+0.6 (+1.1)	+0.6	+0.3
<b>China</b>	+7.7	+7.4	+6.9	+6.5 (+6.4)	+6.2	+2.3

2. In the UK Budget on March 16<sup>th</sup>, George Osborne reduced his forecasts for GDP growth from 2.4% to 2.0% for 2016, and from 2.5% to 2.2% for 2017. The budget deficit will fall to 3.8% of GDP in the 2015/16 tax year, and is forecast to reduce thereafter by around 1% annually, before moving into surplus – on some ambitious spending assumptions – in the 2019/20 year. The Chancellor's target of cutting public sector debt as a proportion of GDP each year will be missed in 2015/16, when the ratio rises from 83.3% to 83.7%.
3. The proposed introduction of a 'sugar tax' on certain soft drinks was eclipsed from the headlines two days later when Iain Duncan Smith resigned as Work and Pensions Secretary after disagreements with the Chancellor over cuts to disability benefits.
4. In attempts to stimulate their flagging economy, the Bank of Japan introduced a negative interest rate of 0.1% on excess bank reserves at the end of January, and in March the European Central Bank cut its main interest rate to zero. Meanwhile the Federal Reserve, having raised rates by 0.25% in December, has made no further increase, and is expected to make only two rises in 2016 instead of the four previously indicated.
5. The announcement in February that the UK Referendum on EU membership would take place on June 23<sup>rd</sup> heralded the start of a debate which cuts across political party lines. With Government ministers being permitted to campaign against the official Government policy of remaining in the EU, attention has also been focused on the splits within the Conservative party and the possibility of a change of leadership after the Referendum.

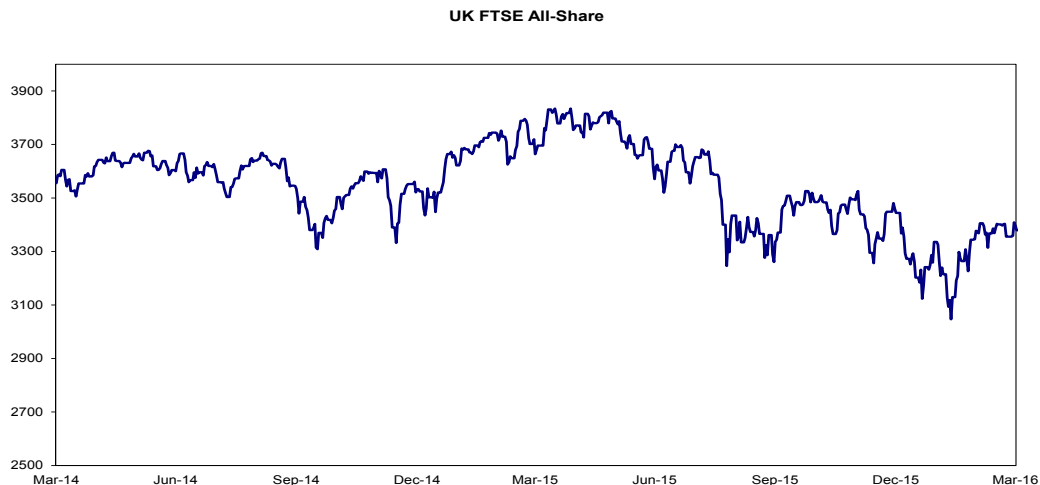
## Markets

### Equities

6. After falling by 10% or more in the first six weeks of the quarter, on fears of global economic slowdown and geo-political worries, equity markets then recovered sharply and - with the exception of Japan – recouped all the lost ground. The weakness of sterling enhanced the performance of overseas markets in sterling terms, as shown in the table below. In February the UK market touched its lowest level for 3 ½ years.

	<b>Capital return (in £, %) to 31.3.16</b>		
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>+2.3</b>	<b>-3.0</b>
55.2	FTSE All-World North America	+3.6	+1.4
8.2	FTSE All-World Japan	-5.2	-5.3
11.5	FTSE All-World Asia Pacific ex Japan	+4.1	-10.6
15.9	FTSE All-World Europe (ex-UK)	+0.3	-6.7
6.7	FTSE All-World UK	-0.9	-8.4
8.7	FTSE All-World Emerging Markets	+8.4	-11.5

[Source: FTSE All-World Review, March 2016]



7. In contrast to the recent pattern, resource stocks were among the strongest sectors during the quarter. After the gloom of the early weeks, the improved sentiment caused a complete reversal, aided by short-covering by investors, and Basic Materials and Oil & Gas each rose by 7.7% in sterling terms. The weakness of the Financials sector was largely due to falls in Banks and Life Insurance on fears about bad debts and the effects of negative interest rates on profits.



<b>Capital return (in £, %) to 31.3.16</b>		
<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
Technology	+4.6	+5.1
Utilities	+11.1	+4.9
Consumer Goods	+3.8	+3.7
Consumer Services	+3.4	+3.6
Telecommunications	+9.1	+2.3
Industrials	+5.1	-1.9
<b>FTSE All-World</b>	<b>+2.3</b>	<b>-3.0</b>
Health Care	-4.5	-5.4
Financials	-3.1	-9.4
Basic Materials	+7.7	-13.3
Oil & Gas	+7.7	-13.7

[Source: FTSE All-World Review, March 2016]

8. In the UK, the large-cap FTSE 100 out-performed the mid- and small-cap sectors, for the first time in over a year.

<b>(Capital only %, to 31.3.16)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>-1.1</b>	<b>-8.8</b>
<b>FTSE 250</b>	<b>-2.9</b>	<b>-1.0</b>
<b>FTSE Small Cap</b>	<b>-2.0</b>	<b>-1.2</b>
<b>FTSE All-Share</b>	<b>-1.4</b>	<b>-7.3</b>

[Source: Financial Times]

#### Bonds

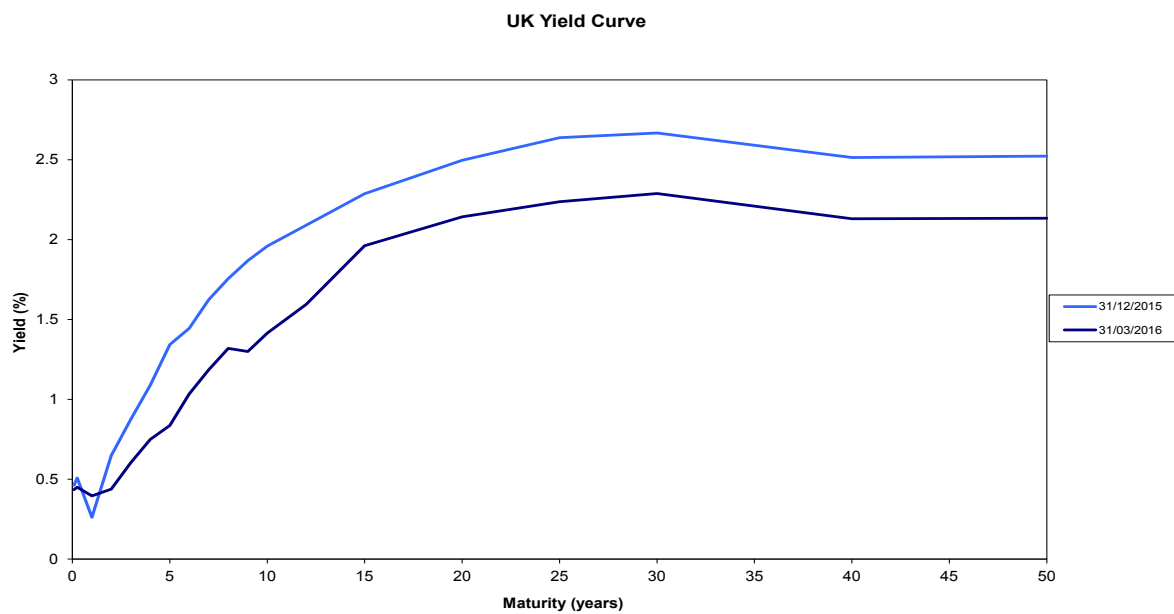
9. Against a background of slowing growth and muted inflation, government bonds strengthened noticeably in the quarter. In Japan, 10-year yields turned negative, while German bond yields moved close to zero.

<b>10-year government bond yields (%)</b>					
	<b>Dec 13</b>	<b>Dec 2014</b>	<b>Sept 2015</b>	<b>Dec 2015</b>	<b>Mar 2016</b>
<b>US</b>	3.03	2.17	2.06	2.27	1.81

<b>UK</b>	3.04	1.76	1.77	1.96	1.54
<b>Germany</b>	1.94	0.54	0.59	0.63	0.15
<b>Japan</b>	0.74	0.33	0.35	0.27	-0.05

[Source: Financial Times]

UK bond yields fell significantly at all durations longer than 3 months.



## Currencies

10. Sterling weakened after the announcement of the EU Referendum, falling at one stage below \$1.40, but the big surprise was the strength of the euro and the yen despite central banks in both regions introducing negative interest rates.

				<b>£ move (%)</b>	
	<b>31.3.15</b>	<b>31.12.15</b>	<b>31.3.16</b>	<b>3m</b>	<b>12m</b>
\$ per £	1.485	1.474	1.437	-2.5	-3.2
€ per £	1.382	1.357	1.261	-7.1	-8.8
¥ per £	178.0	177.3	161.5	-9.3	-8.9

[Source: Financial Times]



## Commodities

11. Oil continued its steep decline, with Brent crude falling as low as \$28 per barrel in February, before it recovered to move above \$40 at the end of the quarter. Copper firmed slightly, while gold gained no less than 16%.



## Property

12. The property returns in the quarter were reliant on rental income, as capital growth has tapered off after three strong years. The forthcoming EU Referendum appears to have

discouraged foreign buyers from investing in Central London property until the outcome of the vote is known.

	<b>3-month</b>	<b>12-month</b>
<b>All Property</b>	<b>+1.1%</b>	<b>+11.7%</b>
<b>Retail</b>	<b>+0.6%</b>	<b>+ 7.5%</b>
<b>Office</b>	<b>+1.3%</b>	<b>+15.2%</b>
<b>Industrial</b>	<b>+1.5%</b>	<b>+15.0%</b>

**[IPD Monthly Index of total returns, March 2016]**

**Outlook**

13. Equity markets have been moving in response to movements in the price of oil – falling sharply as oil declined to below \$30 in February, but recovering strongly as oil rose above \$40 in March. The recent OPEC meeting failed to reach agreement on limiting oil production, which may prevent the oil price from exceeding \$50 in the near term.
14. Geo-political worries continue to cast a shadow: the Syrian conflict, where the ceasefire appears to be breaking down, the migrant crisis in Europe, and the threat of terrorism as exemplified by the attacks in Brussels on March 22<sup>nd</sup>. With the EU Referendum taking place in the UK on June 23<sup>rd</sup>, as the US Presidential campaign gathers momentum, there are numerous uncertainties for investors to wrestle with.
15. Against this background, and with global growth slowing, the possibility of significant gains in equities during the remainder of 2016 looks slim, whereas government bonds are likely to be in demand as safe havens.

**Peter Davies**

**Senior Adviser – AllenbridgeEpic Investment Advisers**

**April 29<sup>th</sup>, 2016**

[All graphs supplied by Legal & General Investment Management]