



Pension Board
26 July 2017

Report from the Chief Finance Officer

For Information

Wards Affected:
ALL

Quarterly monitoring report on fund activity: Quarter to March 2017

1.0 SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2017. 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 3.5% from £775.4m to £802.7m during the quarter ending 31 March 2017.
- b) In the calendar year of 2016/17 the value of the fund has risen by 17.3%.

2.0 RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3.0 DETAIL

3.1 A full market review for the quarter ended 31 March 2017, written by the Independent Financial Adviser, is attached at the end of this report.

3.2 In brief, economic growth in the first quarter of 2017 has slowed compared to the previous quarter, as consumer demand slowed, whilst investment performance has been greater than expected.

Politics dominated the news in quarter 1, with Donald Trump's inauguration as president of the USA and Britain formally starting the process of leaving the EU. In addition, the US Federal Reserve raised interest rates, the Bank of England kept them on hold and the European Central Bank began to slow its asset purchase program. Whilst it is expected that central banks will keep monetary policy accommodative, the direction of travel is shifting towards less stimulus.

UK economic data has remained remarkably resilient since the result of the referendum in June 2016, with headline inflation rising and unemployment remaining close to record lows, and business surveys still optimistic.

Rising inflation expectations has been a theme across developed market economies, leading many market participants to believe we are coming to the end of the era of ultra-loose monetary policy. This combination of political and economic factors is likely to see volatility to return to markets and therefore forecasting long term returns challenging.

3.3 Table 1 summarises the change in asset allocation in quarter 1.

Table 1: Asset allocation as at 31 March 2017 compared to the benchmark

ASSET CLASS	31/12/2016 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/03/2017 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	89.9	0	1.3	91.2	11.4	15.0	-3.6
Equities							
UK - L&G	102.6	0	4.3	106.9	13.3		
UK Smaller Cos - Henderson	28	0	1.2	29.2	3.6		
Overseas Developed - L&G	253.6	0	14.2	267.8	33.4		
Equities - Total	384.2	0	19.7	403.9	50.3	45.0	5.3
Diversified Growth							
Baillie Gifford	73.8	0	2.1	75.9	9.5		
Ruffer	0	50.0	-0.7	49.3	6.1		
Total London CIV	73.8	50.0	1.4	125.2	15.6	21.0	-5.4
Property							
UK - AVIVA	2.2	-2.2	0	0	0.0		
Europe - AVIVA	3.6	-0.2	0.2	3.6	0.4		
Property - Total	5.8	-2.4	0.2	3.6	0.4	0.0	0.4
Private Equity							
Capital Dynamics	83.5	-6.0	1.5	79	9.8		
Yorkshire	0.6	0	0	0.6	0.1		
Private Equity Total	84.1	-6.0	1.5	79.6	9.9	10.0	-0.1
Infrastructure							
Alinda	39.6	-0.1	-1.8	37.7	4.7		
Capital Dynamics	11.5	-0.1	-0.1	11.3	1.4		
Infrastructure Total	51.1	-0.2	-1.9	49	6.1	8.0	-1.9
Cash Deposits							
Other/Northern Trust	86.5	-36.2	-0.1	50.2	6.3	1.0	5.3
Grand Total	775.4	5.2	22.1	802.7	100.0	100.0	0.0

- 3.4 As expected the Fund's position in cash has reduced in Q1 as £50m was invested into the London CIV Ruffer Fund in March 2017 as per the Investment strategy agreed by the sub committee in February 2017. There remains a balance of £50m in cash deposits, principally held for further calls on capital commitments in private equity and infrastructure as well as to re-allocate to other investments. Cash will also be required to fund transfer values in relation to the College of North West London as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (PLFA). This is currently planned for August 2017.
- 3.5 UK property investments have been completely sold as planned, leaving only European property investments of £3.6m. Subject to market conditions the latter is planned run down in 2017/18.
- 3.6 Other notable distributions and capital proceeds that took place in Q1 2017 are:
- a) Capital Dynamic private equity distributions in the quarter of £6.0m
 - b) £2.2m sales proceeds from the Aviva UK property fund
- 3.7 The Fund is monitoring developments and the opening of investment opportunities on the CIV platform with a view to transitioning assets across as soon as there are suitable sub-funds that are in line with the Fund's Investment and Asset Allocation Strategy. Therefore, while the Fund awaits decisions on investment managers available through the CIV, it will review whether the Asset Allocation needs updating or refining.
- 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 2017.

Table 2: Investment Returns in Individual Markets

31-Mar-17							
Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 31/12/16			Qtr Ending 31/03/17			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
Fixed Income							
Henderson Total Return Bond Fund	-0.7	0.1	-0.8	1.5	1.0	0.5	Absolute Return 4% pa
Equities							
UK - Legal & General	3.9	3.9	0.0	4.3	4.0	0.3	FTSE All Share
UK - Small Companies Henderson	2.6	4.5	-1.9	3.7	5.8	-2.1	FTSE Small Cap
O'seas Developed - Legal & General	7.3	7.3	0.0	5.6	5.6	0.0	FTSE Dev World ex UK
European Property							
Aviva Investors	-1.3	2.3	-3.6	4.8	2.0	2.8	IPD All Properties Index
Private Equity							
Capital Dynamics	*	*	*	*	*	*	
Yorkshire Fund Managers	*	*	*	*	*	*	
Infrastructure							
Alinda Capital Partners	3.7	1.9	1.8	-4.7	1.9	-6.6	Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	
Pooled Multi Asset							
Baillie Gifford	2.0	0.9	1.1	2.8	0.9	1.9	Base Rate + 3.5% pa
Cash	0	0.1		0	0.1		Base Rate
Total	3.3	3.3	0	3.3	3.3	0	

3.9 Fixed Income.

The Henderson Bond Fund has outperformed the benchmark, primarily due to positive returns from fund holdings in emerging markets and high yield corporates.

3.10 Equities.

Legal & General have performed above the market rate of return. This is because they are tracker funds and the overall market has risen generally. Henderson Small-caps has performed below the benchmark. This is a volatile fund and in 6 of the last 8 quarters has performed below the benchmark growth. This suggests the holding should be reviewed in the near future.

3.11 European Property

Aviva (European Property) has out-performed the benchmark and is in line with the European property market. Performance has also been boosted by the depreciation of Sterling.

3.12 Private Equity

Performance of Capital Dynamics investments are not analysed in this manner because they are private equity, as measuring performance against public market indices can be misleading. This is planned to be rectified and officers are seeking to find an alternative comparison methodology.

3.13 Infrastructure

Alinda's Infrastructure investment had previously seen above benchmark returns in the previous six quarters. In the last year this was primarily due to investments denominated in American dollars which have appreciated against the UK pound. Although this quarter has seen a negative return, it is expected to return to the previous trend going forwards.

3.14 Pooled Multi Asset

Baillie Gifford had another strong quarter. Similar to the previous quarter this growth is attributable to continued positive performance in investment markets. Cash has just started being invested via Treasury into Money Market funds to enable a better return and protect the principal. Next quarters performance report in will include analysis on Ruffer, which came on board in March 2017.

3.15 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. In 2016 the previous restrictions that applied since 2009 have been removed. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers and the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

Table 3: Compliance with Investment limits as noted within the FSS

Investment	Planned Limits	Actual exposure at 31 March 2017	Compliant Yes / No
Contributions invested in any single partnership	5%	4%	Yes
Contributions invested in partnerships	30%	16%	Yes
Cash deposits	10%	6%	Yes
Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%	11%	Yes
Total investment in illiquid assets	30%	16%	Yes

3.16 Outstanding contractual commitments:

Table 4: Outstanding contractual commitments on existing investments

	31 Dec 2016	31 Mar 2017
	£'000	£'000
Capital Dynamics	21,729	20,773
Alinda	21,427	21,427
Total	43,156	42,200

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 no direct financial implications of this 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 - March 2017 quarterly report
Legal & General - March 2017 quarterly report
Northern Trust Performance Report - March 2017

9. CONTACT OFFICERS

9.1 Ravinder Jassar
Head of Finance
020 8937 1487
Brent Civic Centre.



QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q1 2017

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Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

Peter.Davies@allenbridge.com

www.allenbridge.com

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BRENT COUNCIL PENSION FUND
Quarterly Review, January – March 2017
Report by the Independent Financial Adviser

Economy

1. The UK economy grew by just 0.3% in the first quarter of 2017, after growing by 0.7% in the final quarter of 2016, as consumer demand slowed. Meanwhile the rate of UK inflation continues to rise as the effect of the weaker pound comes through into prices. Growth in the Eurozone continues to improve.

(In the table below, bracketed figures show the forecasts made in January)

[Source of estimates: The Economist, May 6th, 2017]

Consensus real growth (%)						Consumer prices latest (%)
	2014	2015	2016	2017E	2018E	
UK	+2.8	+2.3	+2.0	+1.6 (+1.2)	+1.2	+2.7(CPI)
USA	+2.4	+2.4	+1.6	+2.2 (+2.3)	+2.5	+ 2.4
Eurozone	+0.8	+1.5	+1.6	+1.7 (+1.4)	+1.5	+ 1.9
Japan	+0.3	+0.6	+0.9	+1.3 (+1.1)	+1.1	+0.2
China	+7.4	+6.9	+6.7	+6.6 (+6.4)	+6.2	+0.9

2. In the UK Budget in March, the forecast for GDP growth in 2017 was raised to 2.0%, but lowered in the four subsequent years to an average of 1.8%. Estimates of public sector borrowing in the next four years were slightly lower than those forecast last November, but still accounting for 1% of GDP in 2019-20. The most eye-catching Budget proposal – to increase National Insurance contributions for the self-employed – was later dropped in the face of Conservative opposition.
3. On March 29th, the Prime Minister triggered Article 50, setting in motion the process for the UK's withdrawal from the EU, and three weeks later she called a General Election for June 8th, ostensibly to strengthen her hand in negotiations with the EU.
4. On March 15th the Federal Reserve raised US interest rates by 0.25% (having previously raised them in December 2016), and indicated that two further rises were likely in 2017. The Bank of England does not expect to increase UK interest rates for at least a year.
5. The early months of Donald Trump's presidency were not short of incident; his plan to halt immigration from seven countries was blocked by the courts, and his bill to repeal 'Obamacare' was withdrawn when it became clear that Republican opposition would prevent approval by the House of Representatives. This will in turn delay the passage of his tax plans, possibly until the autumn, and the accompanying incentives for infrastructure investment will also be delayed.
6. In Europe, attention was focused on elections in Holland and France. In March the Prime Minister Mark Rutte appeared to have repelled the advance of the far-right Geert Wilders, but recent difficulties in forming a coalition have made the position more uncertain. In France the second round of the Presidential Election pitted Emmanuel Macron against Marine Le Pen, neither of them representing mainstream parties. M Macron won the run-off convincingly, but his freedom of manoeuvre as President will depend on the outcome of the parliamentary elections in June.

Markets

Equities

7. Global Equities registered solid gains for the 6th successive quarter, giving a cumulative rise of 42% in the All-World Index (in £) in the 18 months to end-March. The backdrop of low interest rates, and sizeable quantitative easing programmes in Europe and Japan, has continued to boost equities. The main UK and US market indices have recently attained all-time highs.

	Capital return (in £, %) to 31.3.17		
Weight %	Region	3 months	12 months
100.0	FTSE All-World Index	+5.1	+29.7
55.5	FTSE All-World North America	+4.3	+32.1
8.2	FTSE All-World Japan	+2.7	+30.0
11.9	FTSE All-World Asia Pacific ex Japan	+10.7	+32.5
15.6	FTSE All-World Europe (ex-UK)	+6.3	+24.0
6.1	FTSE All-World UK	+2.6	+18.4
9.2	FTSE All-World Emerging Markets	+8.5	+31.5

[Source: FTSE All-World Review, March 2017]

US Equities have risen slowly but steadily since autumn 2015.



8. All sectors, with the exception of Oil & Gas gained ground in the quarter. Within the Financials sector, Banks have been particularly strong, partly on hopes that the US Administration will relax some of the regulations imposed after the crisis of 2007/08.

Capital return (in £, %) to 31.3.17		
Industry Group	3 months	12 months
Basic Materials	+6.5	+41.7
Technology	+11.3	+41.4
Financials	+3.8	+35.9
Industrials	+5.8	+33.1
FTSE All-World	+5.1	+29.7
Oil & Gas	-5.3	+29.0
Consumer Goods	+6.9	+23.3
Consumer Services	+5.2	+22.8
Health Care	+6.2	+22.5
Utilities	+5.1	+17.3
Telecommunications	+0.2	+12.0

[Source: FTSE All-World Review, March 2017]

9. In the **UK equity market**, the medium- and small-cap sections outpaced the large-caps during the quarter, but the FTSE 100 Index has still been stronger than the All-Share Index over the past year.

(Capital only%, to 31.3.17)	3 months	12 months
FTSE 100	+2.5	+18.6
FTSE 250	+4.9	+12.1
FTSE Small Cap	+5.6	+19.5
FTSE All-Share	+3.0	+17.5

[Source: Financial Times]

Bonds

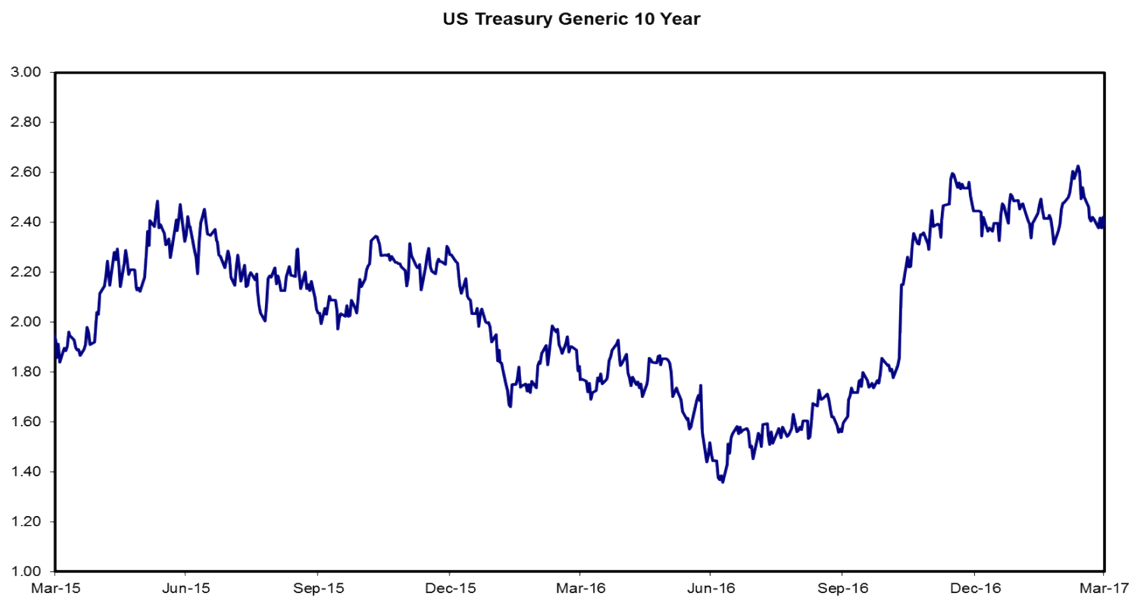
10. The main **Government bond** yields were little changed during the quarter, although within Europe the gap between French and German bonds widened on uncertainty about the outcome of the French Presidential Election.

10-year government bond yields (%)					
	Dec 13	Dec 2014	Dec 2015	Dec 2016	Mar 2017
US	3.03	2.17	2.27	2.46	2.41

UK	3.04	1.76	1.96	1.24	1.22
Germany	1.94	0.54	0.63	0.11	0.33
Japan	0.74	0.33	0.27	0.04	0.07

[Source: Financial Times]

After its sharp rise on the election of Donald Trump, the US 10-year bond yield has traded in a narrow range around 2.4%.



Currencies

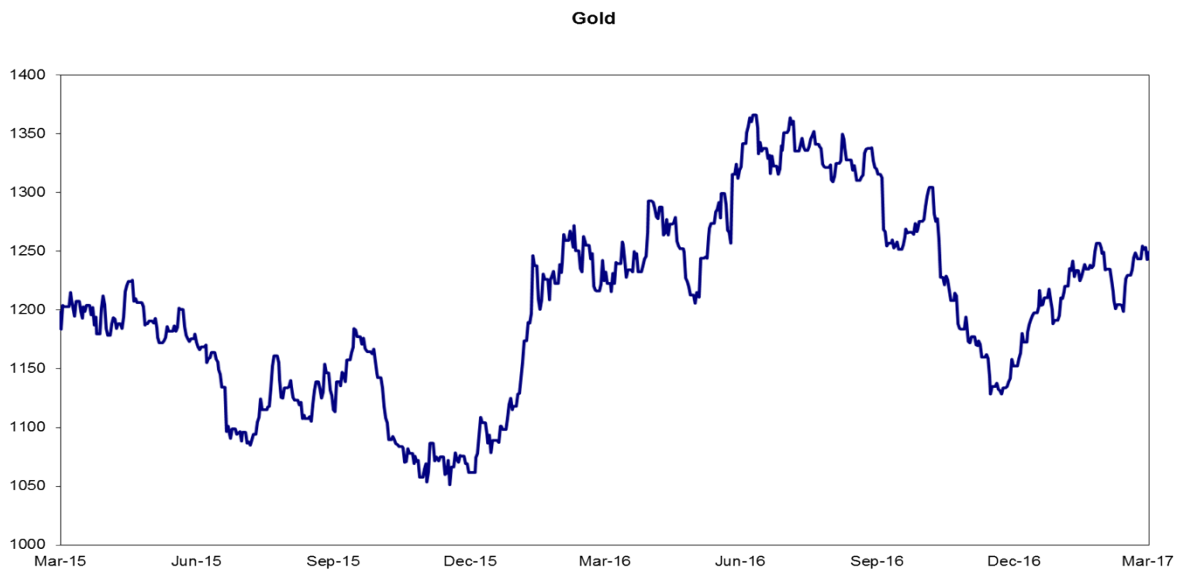
11. After trading at close to \$1.25 during the first quarter, the pound has risen to the \$1.29 level since the announcement of the UK General Election.

				£ move (%)	
	31.3.16	31.12.16	31.3.17	3m	12m
\$ per £	1.437	1.236	1.251	+1.2	-12.9
€ per £	1.261	1.172	1.189	+1.5	- 5.7
¥ per £	161.5	144.1	139.3	-3.3	-13.7

[Source: Financial Times]

Commodities

12. The Oil price, as measured by Brent Crude, has stayed within the \$50-55 range, with occasional upward moves when the oil-producers appear to be close to agreement on limiting output. The price of Copper was stable, while Gold gained nearly 9% during the quarter, bringing it back to its March 2016 level of \$1240 oz (see graph below).



Property

13. The first quarter saw a slight revival in **UK Property**, with positive (albeit small) capital returns from each of the three main sectors. The 12-month returns, however, show that in Retail and Office the falls in capital values were offset by the income returns.

	3-month	12-month
All Property	+ 2.3%	+ 3.8%
Retail	+ 1.8%	+ 2.3%
Office	+ 1.8%	+ 1.4%
Industrial	+ 3.8%	+ 9.4%

[IPD Monthly Index of total returns, March 2017]

Outlook

14. With equity markets having taken the surprise outcomes of the EU Referendum and the US Presidential Election in their stride, it is tempting to downplay the degree of influence exercised on markets by political events. This, however, would be too sanguine a view to take. Whether prompted by the various elections taking place in Europe, the course of President Trump's domestic and foreign policy or the Syrian conflict, we must expect some disruption to the smooth upward path which equities have travelled in the past year.

15. After the UK General Election has taken place, attention will focus once more on the Brexit negotiations with the EU and their impact on the UK economy and corporate sector.
16. With further increases in US short-term interest rates predicted for 2017 and 2018, yields on medium-dated US government bonds seem unlikely to fall from their present levels. Any signs of a slowdown in the pace of quantitative easing in Europe or Japan could also have an adverse effect those bond markets.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

May 17th, 2017

[All graphs supplied by Legal & General Investment Management]