 <b>Brent</b>	<p align="center"><b>Pension Fund Sub-Committee</b></p> <p align="center">7 November 2017</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 June 2017</b></p>	

## **1.0 SUMMARY**

- 1.1 This report provides a summary of the Fund's activity during the quarter ended 30 June 2017. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter. In summary, in the second quarter (Q2) of the calendar year, the Fund increased by 1.2% (£9.3m) from £802.7m to £812.0m compared to a 3.5% (£27.3m) increase in the first quarter (Q1). This equates to a 4.7% increase in the value of the fund in the first six months of the year.

## **2.0 RECOMMENDATIONS**

- 2.1 Members are asked to note the performance report and Independent Financial Adviser's investment report, which is attached to the main body of this report.

## **3.0 DETAIL**

- 3.1 Economic growth in the UK has been in line with predictions from economists. Official figures from the Office for National Statistics estimate the economy expanded by 0.3% in the three months to June 2017, up from 0.2% in Q1. This is below the bank of England's expectations of 0.4% growth in Q2. The main area of growth has been the service industry whilst the construction and manufacturing industries have had led to a downward shift in the UK market.
- 3.2 The UK economy has been resilient following the aftermath of the Brexit vote in June 2016. However, growth has been slow compared to growth in the Eurozone which was double that of the UK in the second quarter of the year. The slowdown in the British UK economy has been as a result of rising inflation over the last four years. The continuous rise in inflation rates has led to a reduction in consumer spending and seen a rise in the prices of goods and services imported into the country.

- 3.3 Economists have noted that the reduced level of growth is not expected to lead to another recession in the UK although risks to growth are still weighted to the downside given the uncertainties with Brexit.
- 3.4 The Bank of England faces a dilemma on interest rates due to a combination of slowing growth and rising inflation. At its September meeting, the monetary policy committee was split and voted 7-2 in favour of holding interest rates at 0.25%. A stronger than expected growth in the UK economy could therefore raise the prospect of an interest rate rise as early as November.
- 3.5 Table 1 summarises the change in the Council's asset allocation in Q2.

**Table 1: Asset allocation as at 30 June 2017 compared to the benchmark**

ASSET CLASS	31/03/2017 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/06/2017 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
<b>Fixed Income</b>							
Henderson-Total Return Bond Fund	<b>91.2</b>		<b>1.5</b>	<b>92.7</b>	<b>11.4</b>	<b>15.0</b>	<b>-3.6</b>
<b>Equities</b>							
UK - L&G	106.9		1.6	108.5	13.4		
UK Smaller Cos - Henderson	29.2	0.1	2.3	31.6	3.9		
Overseas Developed - L&G	267.8		1.2	269.0	33.1		
<b>Equities - Total</b>	<b>403.9</b>	<b>0.1</b>	<b>5.1</b>	<b>409.1</b>	<b>50.4</b>	<b>45.0</b>	<b>5.4</b>
<b>Diversified Growth Fund</b>							
LCIV Baillie Gifford	75.9		1.3	77.2	9.5		
LCIV Ruffer	49.3		-0.1	49.2	6.1		
<b>Total London CIV</b>	<b>125.2</b>	<b>0</b>	<b>1.2</b>	<b>126.4</b>	<b>15.6</b>	<b>21.0</b>	<b>-5.4</b>
<b>Property</b>							
Europe - AVIVA	3.6	-0.2	0.3	3.7	0.5		
<b>Property - Total</b>	<b>3.6</b>	<b>-0.2</b>	<b>0.3</b>	<b>3.7</b>	<b>0.5</b>	<b>0.0</b>	<b>0.5</b>
<b>Private Equity</b>							
Capital Dynamics	79	-1.8	0.5	77.7	9.6		
Yorkshire	0.6		0	0.6	0.1		
<b>Private Equity Total</b>	<b>79.6</b>	<b>-1.8</b>	<b>0.5</b>	<b>78.3</b>	<b>9.6</b>	<b>10.0</b>	<b>-0.4</b>
<b>Infrastructure</b>							
Alinda	37.7	-4.5	-0.8	32.4	4.0		
Capital Dynamics	11.3	0.0	-2.26	9	1.1		
<b>Infrastructure Total</b>	<b>49</b>	<b>-4.54</b>	<b>-3.06</b>	<b>41.4</b>	<b>5.1</b>	<b>8.0</b>	<b>-2.9</b>
<b>Cash Deposits</b>							
Other/Northern Trust	<b>50.2</b>	<b>10.1</b>	<b>0.1</b>	<b>60.4</b>	<b>7.4</b>	<b>1.0</b>	<b>6.4</b>
<b>Grand Total</b>	<b>802.7</b>	<b>3.7</b>	<b>5.6</b>	<b>812.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

- 3.6 Fund assets appreciated by £5.6m with yields from both UK and Global equities, Diversified Growth funds and steady returns from fixed income bonds. The total appreciation was offset by a £3.1m depreciation in infrastructure investments.
- 3.7 There is a balance of £60.4m in cash deposits, principally held for 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 (LPFA). This is currently planned for January 2018. Cash has just started being invested via Treasury into Money Market funds to enable a better return and protect the principal.

- 3.8 Following the complete sale of the UK property investments, the European property investments saw an appreciation of £0.3m, increasing the asset value to £3.7m. Subject to market conditions the European property investments are also planned to be run down in 2017/18.
- 3.9 The Fund is monitoring developments and the opening of investment opportunities on the CIV platform. This is 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. While the Fund awaits decisions on investment managers available through the CIV, a review is being carried out to update or refine the current asset allocation. There is a separate report on the agenda which will discuss the Fund's asset allocation in more detail.
- 3.10 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 June 2017.

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

30-Jun-17							
Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 31/03/17			Qtr Ending 30/06/17			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
Fixed Income							
Henderson Total Return Bond Fund	1.5	1.0	0.5	1.6	1.0	0.6	Absolute Return 4% pa
Equities							
UK - Legal & General	4.3	4.0	0.3	1.4	1.4	0.0	FTSE All Share
UK - Small Companies Henderson	3.7	5.8	-2.1	8.1	2.9	5.2	FTSE Small Cap
O'seas Developed - Legal & General	5.6	5.6	0.0	0.5	0.5	0.0	FTSE Dev World ex UK
European Property							
Aviva Investors	4.8	2.0	2.8	9.4	2.3	7.1	IPD All Properties Index
Private Equity							
Capital Dynamics	*	*	*	*	*	*	
Yorkshire Fund Managers	*	*	*	*	*	*	
Infrastructure							
Alinda Capital Partners	-4.7	1.9	-6.6	-1.8	1.9	-3.7	Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	
Pooled Multi Asset							
Baillie Gifford	2.8	0.9	1.9	1.8	1.0	0.8	Base Rate + 3.5% pa
Ruffer	*	*	*	-0.5	1	-1.4	Base Rate + 3.5% pa
Cash	0	0.1		0	0.1		Base Rate
Total	2.8	3.7	-0.9	0.7	1.4	-0.7	

### 3.11 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.

The fund has made cost savings of approximately £40k due to the introduction of a new tiered fee scale from the fund manager.

### **3.12 Equities.**

Both UK and overseas Legal & General funds have performed in line with benchmark figures as they are tracker funds. Unlike the first quarter, Henderson Small-caps has outperformed the benchmark appreciating by £2.3m. This is evident of how volatile this fund is given performance has been below benchmark for six out of the last ten quarters. Officers will continue to monitor this fund to inform future decisions on asset allocation.

### **3.13 European Property**

As in Q1, Aviva has considerably out-performed the benchmark in Q2. It is worth noting that valuations of real estate assets are inherently uncertain and sometimes are subject to a lack of comparable transactions for appraisers to consider.

### **3.14 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.

### **3.15 Infrastructure**

Alinda's Infrastructure investment had seen above benchmark returns in the previous year. This was primarily due to investments denominated in American dollars which had appreciated against the UK pound. This quarter has seen another negative return compared to a positive benchmark. This negative trend is not expected to continue and officers will continue to monitor performance in the following quarters in the year.

### **3.16 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.

Ruffer joined the fund in March 2017. Performance in Q2 was below benchmark. The negative performance was linked to Mark Carney's unexpected comments about the future path of interest rates. The Central bank down played the comments and was pondering higher interest rates as inflation increased. The markets then re-priced the prospect of monetary tightening across the yield curves. To improve future performance, Ruffer will be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

3.17 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**

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 30 June 2017	Compliant Yes / No
Contributions invested in any single partnership	5%	4%	Yes
Contributions invested in partnerships	30%	15%	Yes
Cash deposits	10%	7%	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[1]	30%	15%	Yes

3.18 Outstanding contractual commitments:

**Table 4: Outstanding contractual commitments on existing investments**

	31 Mar 2017	30 Jun 2017
	£'000	£'000
Capital Dynamics	21,921	18,725
Alinda	22,944	22,791
<b>Total</b>	<b>44,865</b>	<b>41,516</b>

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.

#### **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 – June 2017 quarterly report

Legal & General – June 2017 quarterly report  
Northern Trust Performance Report – June 2017  
Website: <https://www.ons.gov.uk>

## **9. CONTACT OFFICERS**

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q2 2017

11<sup>th</sup> August 2017

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**BRENT COUNCIL PENSION FUND**  
**Quarterly Review, April – June 2017**  
**Report by the Independent Financial Adviser**

**Economy**

1. The UK economy continued to grow at a quarterly rate of just 0.3% in the second quarter, and the Bank of England revised its estimate for 2017 downwards from 1.9% to 1.7%. US employment data have been stronger than expected, while China announced GDP growth at an annual rate of 6.9% for the second quarter. The Federal Reserve raised US interest rates by 0.25% to the 1 – 1.25% range in June, and is generally expected to raise once more during 2017.

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

[Source of estimates: The Economist, July 8<sup>th</sup>, 2017]

<b>Consensus real growth (%)</b>						<b>Consumer prices latest (%)</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	
<b>UK</b>	+2.8	+2.3	+2.0	+1.6 (+1.6)	+1.2	+2.6(CPI)
<b>USA</b>	+2.4	+2.4	+1.6	+2.2 (+2.2)	+2.3	+ 1.9
<b>Eurozone</b>	+0.8	+1.5	+1.6	+1.9 (+1.7)	+1.7	+ 1.3
<b>Japan</b>	+0.3	+0.6	+0.9	+1.3 (+1.3)	+1.1	+ 0.4
<b>China</b>	+7.4	+6.9	+6.7	+6.7 (+6.6)	+6.3	+ 1.5

2. In the UK General Election on June 8<sup>th</sup> the Conservatives lost their overall majority, and entered into a pact with the DUP to ensure they had a working majority in Parliament. Negotiations opened on the terms of Britain's exit from the EU. Terrorist attacks in Manchester and London caused profound shock, as did the disastrous fire at Grenfell Tower in West London.
3. In France, Emmanuel Macron convincingly secured the presidency, and his newly-formed political party then won a resounding majority in the National Assembly. This result was welcomed within the Eurozone, although the new president may not find it easy to implement his economic programme.
4. US political developments continue at breakneck pace; President Trump sacked the FBI director in May, but shortly afterwards the Assistant Attorney-General appointed Robert Mueller as special investigator into possible Russian involvement in the 2016 election campaign. The President has withdrawn the US from the Paris Climate Accord and endorsed the Gulf states' boycott of Qatar. Meanwhile tension has been building up after North Korea's test missile launches, with the United Nations voting to impose sanctions on North Korea's exports.

## Markets

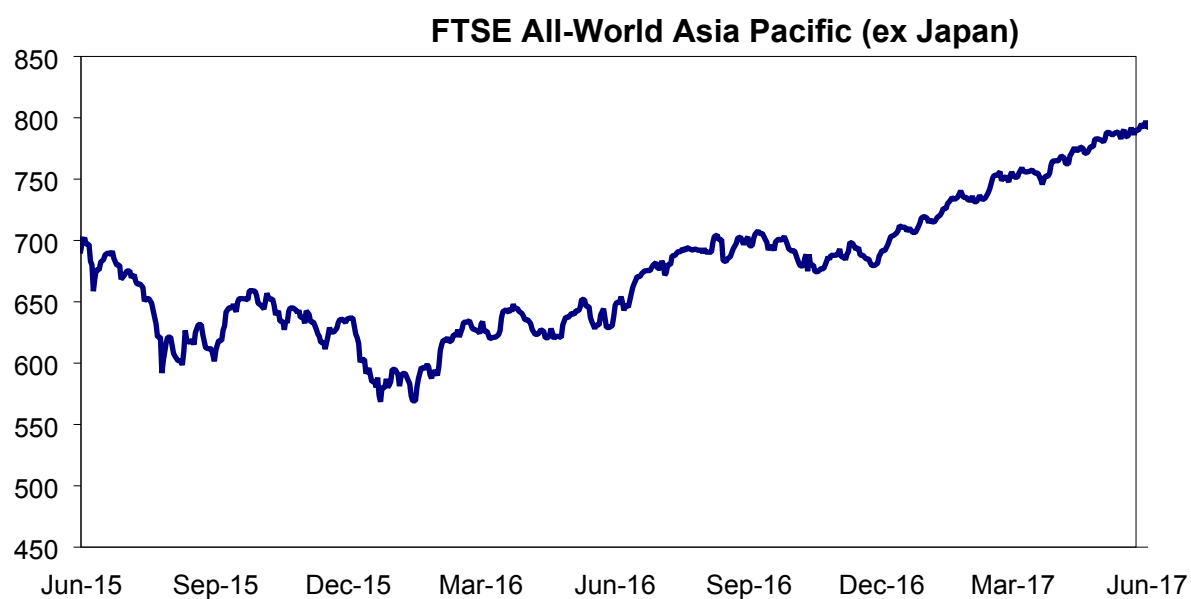
### Equities

- Equity markets were little changed on balance during the quarter, with UK and US indices remaining close to their all-time high levels.

	<b>Capital return (in £, %) to 30.6.17</b>		
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>- 0.3</b>	<b>+19.9</b>
54.8	FTSE All-World North America	-1.4	+18.8
8.4	FTSE All-World Japan	+1.4	+21.4
12.0	FTSE All-World Asia Pacific ex Japan	+0.4	+24.1
15.0	FTSE All-World Europe (ex-UK)	+2.7	+24.8
6.1	FTSE All-World UK	-0.3	+12.5
9.2	FTSE All-World Emerging Markets	-0.8	+20.7

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

Pacific Basin equities have risen steadily over the past eighteen months (see graph)



- Among the sectors of the equity market, Oil & Gas and Telecommunications were significantly weak in the quarter, while Technology has become the leading sector over one year, spurred on by the strength of the 'FAANGs' (Facebook, Apple, Amazon, Netflix and Google).

	<b>Capital return (in £, %) to 30.6.17</b>		
<b>Weight %</b>	<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
12.6	Technology	+0.7	+36.4
22.8	Financials	+0.2	+30.4
4.7	Basic Materials	-2.7	+27.3
12.9	Industrials	+1.5	+25.3
<b>100.0</b>	<b>FTSE All-World</b>	<b>-0.3</b>	<b>+19.9</b>
10.4	Consumer Services	-0.9	+15.6
13.4	Consumer Goods	+1.0	+15.3
10.7	Health Care	+2.6	+10.8
3.3	Utilities	-1.3	+4.1
6.0	Oil & Gas	- 9.1	+0.7
3.2	Telecommunications	-5.3	-2.6

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

7. In the UK market, the medium and small-cap sectors have resumed their leadership relative to the FTSE 100 segment.

<b>(Capital only%, to 30.6.17)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>-0.1</b>	<b>+12.4</b>
<b>FTSE 250</b>	<b>+1.9</b>	<b>+18.9</b>
<b>FTSE Small Cap</b>	<b>+2.8</b>	<b>+24.9</b>
<b>FTSE All-Share</b>	<b>+0.3</b>	<b>+13.8</b>

[Source: Financial Times]

### Bonds

8. The main **Government bond** yields were little changed during the quarter, although the yield gap between US Treasuries and UK gilts narrowed by ¼%.

<b>10-year government bond yields (%)</b>					
	<b>Dec '14</b>	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>Mar 2017</b>	<b>June 2017</b>
<b>US</b>	2.17	2.27	2.46	2.41	2.28
<b>UK</b>	1.76	1.96	1.24	1.22	1.33
<b>Germany</b>	0.54	0.63	0.11	0.33	0.47
<b>Japan</b>	0.33	0.27	0.04	0.07	0.09

[Source: Financial Times]

## Currencies

9. The dollar has continued to weaken, despite the rises in US interest rates. Its trade-weighted index against other world currencies fell 7% in the first seven months of 2017. In the same period, the euro index gained 6%, as the Eurozone economies delivered stronger growth than expected. The euro's recent strength against the pound is shown in the graph below.

	30.6.16	31.3.17	30.6.17	£ move (%)	
				3m	12m
\$ per £	1.337	1.251	1.299	+3.8	-2.8
€ per £	1.203	1.189	1.139	-4.2	- 5.3
¥ per £	137.1	139.3	146.0	+4.8	+6.5

[Source: Financial Times]

### GBP vs EUR



## Commodities

10. The Oil price has remained in the \$45-55 range, fluctuating as estimates of production and reserves are revised. In July the price of Copper reached its highest level since May 2015, spurred on by increased demand from China.

## Copper



## Property

11. In UK Property, the Industrial sector continues to provide the strongest returns, while the quarterly returns on Retail and Office derive almost entirely from rental income. The 12-month figures have improved since March because the post-Brexit referendum weakness of June 2016 has dropped out of the 12-month comparison.

	3-month (%)	12-month
<b>All Property</b>	<b>+ 2.5</b>	<b>+ 5.1</b>
<b>Retail</b>	<b>+ 1.8</b>	<b>+ 3.0</b>
<b>Office</b>	<b>+ 1.9</b>	<b>+ 2.2</b>
<b>Industrial</b>	<b>+ 4.6</b>	<b>+12.4</b>

[IPD Monthly Index of total returns, June 2017]

## Outlook

12. Having disregarded geo-political risks for a long period, equity markets are beginning to worry about the standoff with North Korea and the unpredictable nature of any response from the US under President Trump. Meanwhile, the failure of his administration to get healthcare legislation through Congress has cast doubt on the likelihood of passing tax reform and infrastructure packages on which so many hopes rested. The turnover among senior White House staff, and the ongoing investigation into links with Russia, add to the uncertainty surrounding the direction of US policy on the major issues of the day.
13. After the UK election resulted in a hung parliament, and a severe weakening of the Prime Minister's authority, the equity market and sterling have reacted calmly, but the effect on domestic consumption of negative real wage growth seems likely to further depress UK

economic growth. The progress of Brexit negotiations with the EU will become an increasing influence on sentiment in markets and in the country at large, so the near-term outlook is highly uncertain.

14. Against this background, it is hard to see equity markets moving into new high ground, while the ‘safe-haven’ government bond markets may well attract investors and thereby keep yields in those markets at current levels.

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**August 11<sup>th</sup>, 2017**

[All graphs supplied by Legal & General Investment Management]



QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2017

11<sup>th</sup> October 2017

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**BRENT COUNCIL PENSION FUND**  
**Quarterly Review, July – September 2017**  
**Report by the Independent Financial Adviser**

**Economy**

1. The forecast growth rate for the UK economy in 2017 has been revised downwards to 1.5% after sluggish growth in the second quarter. Meanwhile, forecast growth rates in the other developed regions have been maintained or revised upwards.

(In the table below the bracketed figures show the forecasts made in August)  
[Source of estimates: The Economist, October 7<sup>th</sup> 2017]

<b>Consensus real growth (%)</b>						<b>Consumer prices latest (%)</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	
<b>UK</b>	+2.8	+2.3	+2.0	+1.5 (+1.6)	+1.3	+2.9(CPI)
<b>USA</b>	+2.4	+2.4	+1.6	+2.2 (+2.2)	+2.3	+ 1.9
<b>Eurozone</b>	+0.8	+1.5	+1.6	+2.1 (+1.9)	+1.9	+ 1.5
<b>Japan</b>	+0.3	+0.6	+0.9	+1.5 (+1.3)	+1.2	+ 0.6
<b>China</b>	+7.4	+6.9	+6.7	+6.8 (+6.7)	+6.4	+ 1.8

2. The Bank of England hinted that UK interest rates could rise before the end of 2017, while the US Federal Reserve is to start reducing its balance sheet by not re-investing the proceeds of maturing bonds, and is expected to increase rates again in December. The European Central Bank deferred a decision on changing its quantitative easing policy until its October meeting.
3. On September 22<sup>nd</sup>, in a speech in Florence, Theresa May set out more details of the UK's approach to the Brexit negotiations, but discordant voices within her Cabinet, and a troubled Conservative Party conference, have created renewed uncertainty about her tenure as Prime Minister.
4. In the German Federal elections on September 24<sup>th</sup>, Angela Merkel won a fourth term as Chancellor, but her CDU party's share of the vote declined sharply, and the extremist AfD party won 13% of the votes. She must now seek a coalition with the Greens and the FDP, after the SPD withdrew as a coalition partner. In Japan, Prime Minister Abe has called a snap election for October 22<sup>nd</sup>.
5. Tensions between North Korea and the United States escalated after North Korea carried out several missile tests, and President Trump responded with bellicose statements. Domestically, Trump has provoked more controversy with his equivocal comments after the rallies in Charlottesville, and disbanded two business advisory councils when members began to resign in protest at his remarks. Late in September, the Republicans published a tax reform plan, including reductions in corporate tax rates, which will now be debated in Congress.

## Markets

### Equities

6. For the second successive quarter, equity markets were little changed. The UK market continues to deliver a return significantly below that of overseas equity markets, while Continental Europe has been by far the strongest region during the past year.

	<b>Capital return (in £, %) to 30.9.17</b>		
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>+1.3</b>	<b>+12.7</b>
54.2	FTSE All-World North America	+0.9	+12.6
8.3	FTSE All-World Japan	+0.1	+9.3
12.2	FTSE All-World Asia Pacific ex Japan	+0.7	+12.3
16.4	FTSE All-World Europe (ex-UK)	+3.6	+18.9
6.2	FTSE All-World UK	+0.8	+6.9
9.6	FTSE All-World Emerging Markets	+3.3	+13.2

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

7. The rise in the price of oil, and the improving outlook for global economic growth boosted the Oil & Gas and Basic Materials sectors, while most other sectors showed little change over the quarter.

	<b>Capital return (in £, %) to 30.9.17</b>		
<b>Weight %</b>	<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
13.0	Technology	+4.3	+22.3
22.9	Financials	+1.6	+20.4
4.9	Basic Materials	+6.2	+20.3
13.0	Industrials	+2.3	+17.0
<b>100.0</b>	<b>FTSE All-World</b>	<b>+1.3</b>	<b>+12.7</b>
13.0	Consumer Goods	-0.9	+7.7
10.5	Health Care	-1.0	+6.8
10.2	Consumer Services	-2.2	+6.5

3.2	Utilities	-0.2	+4.5
6.2	Oil & Gas	+5.2	+1.5
3.1	Telecommunications	-0.7	-3.6

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

8. The mid- and small-cap sectors of the UK market have out-performed the FTSE 100 over the past quarter and 12 months.

<b>(Capital only%, to 30.9.17)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>+ 0.8</b>	<b>+ 6.9</b>
<b>FTSE 250</b>	<b>+ 2.8</b>	<b>+11.2</b>
<b>FTSE Small Cap</b>	<b>+ 2.3</b>	<b>+14.8</b>
<b>FTSE All-Share</b>	<b>+ 1.2</b>	<b>+ 7.8</b>

### Bonds

9. As was the case in the second quarter, there was very little net change in the yields on medium-term government bonds in the major markets.

<b>10-year government bond yields (%)</b>					
	<b>Dec '14</b>	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>June 2017</b>	<b>Sept 2017</b>
<b>US</b>	2.17	2.27	2.46	2.28	2.32
<b>UK</b>	1.76	1.96	1.24	1.33	1.41
<b>Germany</b>	0.54	0.63	0.11	0.47	0.47
<b>Japan</b>	0.33	0.27	0.04	0.09	0.05

### **Currencies**

10. The dollar and the yen were the weaker currencies during the quarter, while the pound kept pace with the euro. At one stage the pound reached \$1.36 – its highest level against the dollar since the EU referendum – but in early October it retreated to \$1.31.

				<b>£ move (%)</b>	
	<b>30.9.16</b>	<b>30.6.17</b>	<b>30.9.17</b>	<b>3m</b>	<b>12m</b>
\$ per £	1.299	1.299	1.342	+ 3.3	+ 3.3
€ per £	1.156	1.139	1.135	- 0.4	- 1.9
Y per £	131.5	146.0	151.0	+ 3.4	+14.8

## **Commodities**

11. The price of Brent crude rose by over 15% during the quarter to reach \$57 per barrel, its highest level for two years. This has been the result of a number of factors – the maintenance of the production curbs announced by OPEC countries and Russia in November 2016; the threat by President Erdogan of Turkey's to turn off an Iraqi pipeline, and the interruptions to refining operations in Texas caused by Hurricane Irma.

## **Outlook**

12. Equity markets have edged gradually upwards despite geo-political concerns surrounding developments in North Korea and the Middle East. The impending interest rate rises in the US and UK, together with the tapering of quantitative easing by the US Fed – and possibly by the European Central Bank – are likely to act as a brake on equity markets as the cost of borrowing rises.
13. Similarly, government bond market yields are likely to rise in response to higher short-term rates, unless they become 'safe havens' in the event of political crisis, or if global economic growth begins to slow down. In either of these situations, equities can be expected to weaken significantly.

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