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# Brent Pension Fund Sub-Committee

**Tuesday 23 February 2016 at 6.00 pm**
Boardroom 3-4 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

**Members**
Councillors:

Crane (Chair)
Daly
Khan
Miller
Naheerathan
Shahzad
Vacancy

**Substitute Members**
Councillors

Dixon, Eniola, Ezeajughi, Farah, Harrison, Hector, Hoda-Benn, Hossain, Hylton, W Mitchell Murray and Perrin

**Non Voting Co-opted Members**

| | |
|---|---|
| Francesca Hammond | UNISON |
| | College of North West L:ondon |

**For further information contact:** Joe Kwateng
0208 937 1354; joe.kwateng@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:
**democracy.brent.gov.uk**

**The press and public are welcome to attend this meeting**

**Please note the early start time of the meeting**

recycle for Brent

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

**Ward affected:** All Wards

***Contact Officer***: Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

**8 Quarterly monitoring report on fund activity: Quarter to September 2015** 13 - 28

This report provides a summary of the Fund's activity during the quarter ended 30 September 2015 and examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

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***Contact Officer***: Conrad Hall, Chief Finance Officer

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**9 Quarterly monitoring report on fund activity: Quarter to December 2015** 29 - 42

This report provides a summary of the Fund's activity during the quarter ended 31 December 2015. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

**Ward affected:** All Wards

***Contact Officer***: Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

**10 Minutes of Pension Board - 02 February 2016 (to follow)**

**11 Any other urgent business**

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 64.

Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

Brent

# LONDON BOROUGH OF BRENT

**MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE**
**Tuesday 17 November 2015 at 6.30 pm**

PRESENT: Councillor Crane (Chair) and Councillors Khan and Miller

Also present: Peter Davies (Independent Adviser to the Fund)

Apologies for absence were received from: Councillors Daly and Shahzad

1. **Declarations of personal and prejudicial interests**

   None declared.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 21 July 2015 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations**

   None.

5. **Presentation by State Street Corporation**

   Lynn Coventry from State Street presented to the Sub-Committee on Brent Pension Fund's (the fund's) performance including benchmark against other local authority funds. In giving an overview, Members heard that for the financial year ending 31 March 2015, the average performance of the fund's assets was 13.2% with overseas assets performing better than the UK portfolios. She added that the fund's strategy of approximately 24% investment in Alternatives, was different to the local authority average.

   Members heard that over the last decade the fund had performed above benchmark in only 2 years (2007 and 2013). The disappointing performance was largely caused by Active Management (Alliance Bernstein) and investments in some Alternatives which had been closed but not before they had had a detrimental impact on the Fund. The Fund's asset allocation and stock selection had been unfavourable notably the below benchmark commitment to property. The Fund's return was well below the local authority average return over the latest year and the longer term with the key factor here being the stock selection in equities and bonds.

The fund had achieved an absolute return of 10.7% over the latest year in line with the benchmark but this was still well below the local authority average of 13.2%. Relative performance from Alinda, Baillie Gifford and Capital Dynamics was most beneficial to the Fund, however, below average performance from Henderson Gartmore, Henderson Global Investors and Dimensional reduced the relative return. Over the longer term the fund had sacrificed a higher level of return compared to other funds due to its lower than average risk strategy.

During the ensuing discussion, members expressed preference for the actual cost of fund managers' fees to be stated in future monitoring reports. The Chief Finance Officer explained that fund manager fees were periodically reviewed depending on performance and reported to the Sub-Committee for its decision.

Lynn Coventry was thanked for the presentation.

RESOLVED:

that the presentation by State Street Corporation on the Brent Pension Fund's performance be noted.

6. **Quarterly Monitoring report on fund activity to June 2015**

The Sub-Committee received a report that provided a summary of the Fund's activity during the quarter ended 30 June 2015, examined the economic and market background, and investment performance. Chris O'Brien (Interim Pensions and Investments Manager) headlined the main points for the quarter. Members heard that within the context of a very difficult economic environment, the Fund had reduced in value by 2.3% from £657.6m to £642.4m during the quarter and underperformed its quarterly benchmark return by 1.5%. The Private Equity Fund of Fund holding reduced in value by 8.9% and returned the distribution of £4.9m.

He continued that UK equities small cap and UK property produced the best absolute returns in the quarter (5.3% and 2.7% respectively), however both underperformed relative to their benchmarks (-0.1% and -0.6% respectively). Global equities ex UK and emerging market equities produced the lowest absolute returns (contributing -5.4% and -4.7% respectively). However relative to benchmark, global equities ex UK matched its benchmark and emerging market equities outperformed its benchmark by 0.3%. He then drew members' attention to the table within the report that set out the investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 June 2015.

Peter Davies (Independent Adviser) presented his report to the Sub-Committee. It was noted amongst others that the UK market remained the weakest over the year with Continental Europe slightly ahead of it and that Government Bonds had reversed their previous sharp appreciation. He also drew members' attention to the performance tables for each individual portfolios.

RESOLVED

That the quarterly monitoring report be noted.

7. **Minutes of Pension Board - 7 July 2015**

Members were informed that a joint training was being set up.

RESOLVED:-

that the minutes of the Pension Board meeting of 7 July 2015 be noted.

8. **Update on the Collective Investment Vehicle**

The Sub-Committee received a briefing report that updated members on recent progress in developing the collective investment vehicle (CIV) and implications for the pension fund. Chris O'Brien (Interim Pensions and Investment Manager) informed members that the Financial Conduct Authority (FCA) approval had been obtained and to date thirty one London Boroughs had agreed to participate in CIV. He then summarised the key achievements to date.

The establishment of the operating company (London LGPS CIV Ltd) and its governance arrangements; the appointment of an asset servicer, Northern Trust, for the CIV with the sole role of providing depositary, custodian, fund accountant, transfer agency and tax reclaims services as well as providing a forum for shareholders in the CIV and the establishment of a technical sub-group. He continued that interim directors appointed had met and considered or ratified decisions concerning procurement activity, including the recruitment of permanent executive and non-executive members of the board, legal and technical advisers and the recruitment process for senior executives and future board members.

Members were informed that the requirement for regulatory capital, needed to satisfy the FCA was now estimated to be in the region of £150,000 for each participating borough and that safeguards were in place. It was noted that Fund managers with multiple mandates across London had provided offers for fees for inclusion in the CIV.

Peter Davies (Independent Adviser) added that each borough would maintain its sovereignty within the scheme and that participation in the CIV would lead to cheaper transaction costs. Conrad Hall (chief Finance Officer advised that the establishment of CIV fitted in with the Fund's investment strategy and undertook to circulate further updates to members and to invite representatives of CIV to the next meeting of the Sub-Committee.

RESOLVED:

(i) that the progress report be noted;

(ii) that the Chief Finance Officer circulate details of the course on pensions training to all members;

(ii) that the Chief Finance Officer write to invite the Chief Executive of CIV to the next meeting of the Sub-Committee in February 2016.

9. **Update on the Strategic Asset Allocation**

The update was considered as part of the quarterly monitoring report.

10. **The Impact of Markets in Financial Instrument Directive II (MiFID II) on Local Government Pension Schemes**

Members received a report that provided an update on the impact of Markets in Financial Instruments Directive II (MiFID II) on the Local Government Pension Scheme (LGPS) especially in relation to the cost of fund management and advice and asset classes. Chris O'Brien (Interim Investment and Pensions Manager) clarified that MiFID was the European Union (EU) legislation governing investment intermediaries that provided services to clients in relation to 'financial instruments' and the stock markets. MiFID which had been applied in the UK from November 2007 was being comprehensively revised to improve the functioning of financial markets with the changes known as MiFID II expected to take effect in January 2017.

MiFID II required Public Local Authorities to be removed from the client category of eligible counterparties and professionals and to be treated in the first instance as retail clients unless they opt to be treated as professional clients. He explained that retail clients were entitled to greater protection under the regulations as fund managers and advisors would need to increase reporting and advice to ensure that the client understood the investment products resulting in higher fees. It was not clear at present which asset classes would be affected but early indications were that many alternative investments such as infrastructure, property pooled funds and private equity funds would not be allowed under the new categorisation and that life funds, such as those which LGPS funds invest in to access passive equity pooled funds, will not be affected.

Conrad Hall Chief Finance Officer added that there was uncertainty as to whether MiFID II would apply only to new business after the implementation in January 2017 or whether existing holdings would be affected. It was partly for that reason that local authorities were being advised to seek further information ahead of the implementation in 2017. He undertook to provide regular updates to members on MiFiD II.

RESOLVED:-

(i) that the impact of MiFID II on the LGPS especially in relation to the cost of fund management and advice and the impact on the asset classes that the LGPS would be able to access be noted;

(ii) that the need for administering authorities to obtain information and advice from fund managers and fund consultants ahead of implementation in January 2017 on the specific implications of the above for their funds be noted.

11. **Pension Fund Annual Report**

Members received the annual report and accounts of the Brent Pension Fund for the year 2014/15. In noting the report, the opening paragraph of the Chairman's foreword to the report was amended from "2015/16" to read "2014/15".

RESOLVED:-

that the annual report and accounts of the Brent Pension Fund for the year 2014/15 be noted.

12. **Any other urgent business**

None.

The meeting closed at 7.47 pm

G CRANE
Chair

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| Brent | **Pension Fund Sub-Committee**<br><br>23rd February 2016<br><br>**Report from the Chief Finance Officer** |
| For Information | Wards Affected: ALL |
| **LGPS Reforms Update** | |

**Recommendation**

Members are asked to:

- Note the overview of the two current pension reform consultations issued by the DCLG.

- Delegate responsibility for responding to these consultations to the Chief Finance Officer in discussion with the Chair of the Pensions Sub-Committee.

## 1. Background

1.1 Please see below for a briefing note on two related current national LGPS reform work streams:

- The requirement for Local Authorities to respond on pooling proposals as set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.
- Consultation on the Local Government Pension Scheme: Revoking & Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

## 2. Introduction

**Requirement for Local Authorities to Respond on Pooling Proposals**

2.1 At the summer Budget 2015, the Chancellor announced the intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance. In November 2015, prescriptive guidance was provided requiring Local Authorities to set out their response to meet this proposal. This guidance, Local Government Pension Scheme: Investment Reform Criteria and Guidance, can be found from the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

**Consultation on LGPS Scheme Regulation changes**

2.2 In order for the pooling arrangements to be able to operate, the current regulations need to be reviewed. In November 2015, the DCLG issued a consultation on the LGPS; proposing to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. There are two main areas of reform:

- Reforms aimed at removing some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of investments and take account of risk.
- Introduction of safeguards to ensure the more flexible legislation is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

2.3 A full copy of the consultation, Local Government Pension Scheme: Revoking & Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479642/Consultation_on_investment_reform.pdf

2.4 The aim of this report is to provide an overview of the national pension reform agenda. There will be further reports setting out the implications and resulting actions needed to implement these proposals. The DCLG require a response to both of these reform work streams by 19th February 2016.

**3. Pension Reforms**

**Requirement for Local Authorities to Respond on Pooling Proposals**

3.1 Local Authorities are being asked to submit initial proposals on how their pooling arrangements will be constituted and will operate. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

3.2 Subsequently, by 15 July 2016, these submissions need to be further refined, fully addressing the criteria in the guidance document and providing any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings,

the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

**Consultation on LGPS Scheme Regulation changes**

3.3 The regulatory reforms required, include two main proposed areas:

**Proposal 1: Deregulation and adopting a local approach to investment**

3.4 In developing these draft regulations, the Government has sought, where appropriate, to deregulate and simplify the regulations that have governed the management and investment of funds since 2009. By lifting some of the restrictions on investments it will make it easier for administering authorities to pool their investments. Those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. However, the steps taken to move to a more local approach to investment include:

- No specific requirement to state extent of compliance with Myners principles. But authorities should still have regard to this guidance.
- Removal of requirement to maintain a Statement of Investment Principles. To be replaced by an Investment Strategy Statement, (ISS) which must be published by 1 October 2016. Additional areas to be included in the ISS are the approach to collaborative investment and the authority's policy on the exercise of voting rights attached to its investments.
- The draft regulations also propose to remove the existing schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk. For example, additional information in has been added to make clear that certain investments, such as derivatives, may be used where appropriate.

**Proposal 2: Introducing a safeguard – Secretary of State power of intervention.**

3.5 In order to ensure that this new flexibility as recommended above is used appropriately, the draft regulation proposes to give the Secretary of State the power to intervene in the investment function of an administering authority if the Secretary of State has determined that best practice or the regulations is being ignored. The consultation sets out:

- The evidence that the Secretary of State may draw on before deciding to intervene, and makes clear that any direction will need to be proportionate.
- The power proposed in this consultation is intended to allow the Secretary of State to act if best practice or regulation is being ignored, which will help to ensure that authorities continue to pursue more efficient means of investment.

3.6 In order to determine when to intervene, the following will be considered:

- Evidence that an administering authority is ignoring information on best practice, for example, by ignoring advice provided by the Scheme Advisory Board to Local Pension Boards.
- Evidence that an administering authority is not following the investment regulations.
- Evidence that an administering authority is carrying out another pension-related function poorly (for example, an actuarial valuation which has not been carried out in accordance with Scheme regulations).

3.7 The proposed intervention might include:

- Requiring the administering authority to develop a new investment strategy statement that follows the regulations
- Directing an administering authority to invest all or a portion of its assets in a particular way (for example, through a pooled vehicle)
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body

## 4. Next Steps

4.1 It is proposed that the consultation response is delegated to the Chief Finance Officer in discussion with the Chair of the Pensions Sub-Committee and a copy shared with the Pension Fund Sub-Committee and the LPB. The views expressed by the London CIV will be considered as part of this response.

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| Brent | **Pension Fund Sub-Committee**<br><br>23 February 2016<br><br>**Report from the Chief Finance Officer** |
| For Information | Wards Affected: ALL |

**Implementation of Strategic Asset Allocation Policy**

## Recommendations

Committee Members are asked to:

1. Note that a decision was made to move investments to the London Collective Investment Vehicle (CIV) as part of the review of the strategic asset allocation policy agreed by the Pension Fund Sub-Committee in July 2015;

2. Note the progress to date on implementation of the new policy, set out in this report;

3. Note that the decision was made to redeem all the units in the Aviva Real Estate Fund of Funds and that a further decision will be required on where to hold the Aviva monies, if suitable funds are not available in the CIV at the time of receipt of the Aviva redemptions.

## Introduction

4. This report sets out the steps required to implement the new asset allocation policy along with the progress to date.

5. Many of these steps are dependant on suitable funds being available within the London CIV and clarification will be sought on plans for the introduction of new funds in the CIV.

## Plan for Implementation of Strategic Asset Allocation Policy

| | Style | Manager | Dec 15 Value (£m) | Dec15 (%) | Proposed Target % | Action required | Date | Status | Comments | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fixed Income** | Active | Henderson | 86.4 | 13.1 | 0.0 | Redeem Henderson Fund | TBC | Outstanding | implementation dependant on availability of fund in CIV. Henderson fund will provide a reasonable substitute in short term | Stage 3 |
| | 2 Alt Credit funds | TBD | 0.0 | 0.0 | 15.0 | Add £10m to proceeds of Henderson fund to fund 2 new funds | | | | |
| **Equities** | UK Passive | LGIM | 87.7 | 13.3 | 20.0 (combined) | Divest £106m (net) (combined). Transfer LGIM holdings to CIV reweighting between UK & overseas to reflect relative weights in global equity index | Q2 2016 | Outstanding | date tbc by CIV. Proceeds from Dimensional redemption being held in LGIM o/s tracker until second DGF is available in CIV | Stage 2 |
| | Overseas Passive | LGIM | 195.5 | 29.6 | | | | | | |
| | Global Active (2 funds) | TBD | 0.0 | 0.0 | 20.0 | Add £126m | TBC | Outstanding | date tbc by CIV | Stage 2 |
| | UK Small-Cap | Henderson | 26.7 | 4.0 | 5.0 | No action needed | N/A | No action required | | |
| | Emerging Markets | Dimensional | 0 | 0.0 | 0.0 | Redeem all units | Q4 2015 | Complete | Proceeds invested in L&G o/s equity tracker | Stage 1 |
| **Diversified Growth** | Multi-asset | Baillie Gifford | 68.8 | 10.4 | 11.0 | Move to CIV | Q1 2016 | Outstanding | | Stage 1 |
| | Multi-asset | TBD | 0.0 | 0.0 | 10.0 | Add £65m (combined) | TBC | Outstanding | £65m funded from Dimensional & Aviva proceeds. Investment in 2nd DGF fund subject to availability of funds in London CIV | Stage 1 |
| **Property** | UK fund-of-funds | AVIVA | 35.0 | 5.7 | 0.0 | Redeem all units | April 2017 | Outstanding | £10m to be redeemed each quarter from July 16 to April 17 | Stage 1 |
| | Europe fund-of-funds | AVIVA | 3.5 | 0.0 | 0.0 | Redeem all units | April 2017 | Outstanding | Being wound down by end-2017 | Stage 1 |
| **Private Equity** | Fund of Funds | Capital Dynamics | 83.1 | 12.6 | 10.0 | No further commitments | N/A | No action required | | N/A |
| **Infrastructure** | Direct | ALINDA | 30.8 | 4.7 | 8.0 (combined) | $20m commitment to be drawn down | N/A | No action required | | N/A |
| | Funds+ Direct | Capital Dynamics | 10 | 1.5 | 0 | No further commitments | N/A | No action required | | N/A |
| **Cash** | Short-dated | In-house | 33.7 | 5.1 | 1.0 | | N/A | No action required | | N/A |
| **TOTAL** | | | **661.2** | **100.0** | **100.0** | | | | | |

ITEM NO:

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| Brent | **Pension Fund Sub-Committee**<br><br>23rd February 2016<br><br>**Report from the Chief Finance Officer** |
| For Information | Wards Affected: ALL |
| **Quarterly monitoring report on fund activity: Quarter to September 2015** | |

## 1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 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 reduced in value by 1.3% from £642.4m to £634.3m during the quarter ended 30 September 2015. The fund return outperformed the benchmark return of -2.4% in the quarter by 1.2%. This performance was within the context of a very difficult economic environment where there was reduced opportunity for investment growth in most markets. In the (calendar) year to 30 September 2015 the value of the fund has risen from £627.2m to £634.3 or by 1.3%

b) Infrastructure and UK property produced the best absolute returns in the quarter (6.3% and 2.7% respectively). Infrastructure outperformed its benchmark by 4.3%. However UK property under performed its benchmark by 0.3%.

c) Overseas emerging equities and UK equities produced the lowest absolute returns (detracting -15.8% and -5.7% respectively). Relative to benchmark, UK equities matched its benchmark and emerging market equities under performed its benchmark by 1.3%.

d) The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 September 2015 is shown below:

| | Total Fund Return | Fund Benchmark Return | Local Authority Average |
|---|---|---|---|
| 1 year | 3.1 % | 3.2% | N/A |
| 3 years (per annum) | 8.1% | 7.8% | N/A |

| | | | |
|---|---|---|---|
| 5 years (per annum) | 6.6% | 6.8% | N/A |
| | | | |

## 2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

## 3. DETAIL

**Economic and market background – quarter ended 30 September 2015**

3.1 The quarter to September was an extremely turbulent period for investment markets. Global equity investors faced a testing and volatile environment, with sentiment strained by a series of factors that combined to drive all major regional indices lower. From a global perspective, mining and energy shares recorded the biggest falls. The emissions scandal at Volkswagen was the real surprise of the quarter.

3.2 In the UK, the FTSE 100 was down 6.1% in the quarter. During July, the Bank of England edged towards a rate rise, although the Governor cautioned that this was "counterbalanced somewhat by disinflation". CPI inflation recorded 0.1% in the year to July. In September the Bank rate remained unchanged and core CPI fell to 1%.

3.3 The US market outperformed in July. Despite a strong start to the quarter, US stocks underperformed in August, with significant stock market falls resulting from the slowdown in China. The Federal Reserve's decision to delay an interest rate hike resulted in stocks falling. Under ordinary circumstances, a delay in raising interest rates would be seen as being supportive of stock markets. In this instance, however, it was interpreted as a warning about the risks to the global economy and unsettled investors.

3.4 In Europe concerns over global growth slowdown and the Fed's tightening cycle added to investors' unease. Greece missed an IMF payment, imposed capital controls and called a referendum on creditor proposals. Eurozone parliaments approved a package for Greece which allowed the repayment of 3.2 billion Euros to the ECB. Eurozone growth was stronger than reported, with quarter 2 GDP rising 0.4%. The Eurozone lapsed back into deflation in September, with CPI falling 0.1% from a year earlier. The setback largely reflects the continuing decline in oil prices.

3.5 Japanese equities endured a steep slide during the quarter. Japan was caught in the global sell-off that left global equity investors in negative territory for the quarter and year to September.

3.6 UK property returned 3.4% over the quarter, with 2015 on course to be another excellent year for property investments. Volumes have been robust despite initial fears the general election and geo-political unrest could dampen activity.

Supported by the likelihood of continued very low borrowing rates and sustained economic expansion, domestic and overseas capital has spread nationally, leading to a broader rise in capital values. The strength of the UK property market is expected to continue in 2016, giving property a premium over equities and bonds.

3.7 Emerging markets endured a difficult quarter and underperformed developed markets. The MSCI Emerging Markets index fell 18%, in US terms, over the quarter. The quarter began with Chinese equities being particularly weak, while shares in Brazil and Korea also suffered heavily. As the quarter continued, Chinese equities recorded the steepest fall. Policy makers took action in August, devaluing the Yuan three times. By the end of the quarter, other Asian and emerging markets performed better in September than global shares overall. However, in aggregate, global emerging markets under performed their developed peers.

3.8 The volatility in investment markets during the quarter impacted on government bonds, corporate bonds and equities. While government bond markets generated positive returns, corporate bond and equity markets struggled with negative returns from both investment grade and high yield markets, as spreads widened amid broader risk-aversion.

3.9 A market review for the quarter ended 30 September 2015, written by the Independent Financial Adviser, is attached.

**Investment performance of the Fund**

3.9 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 Sep 15 | Period ended 30 Jun 2015 |
|---|---|---|
| 1 year | 37th | 87th |
| 3 years | 61st | 84th |
| 5 years | 81st | 94th |
| 10 years | 100th | 98th |

3.10 The comparative statistics show that the Fund has been one of the lower performing LGPS funds for a period of many years. It is not possible to turn this position around quickly without exposing the fund to unacceptable levels of risk. However, the improvements in the one and three year relative benchmark are somewhat encouraging, with the fund moving from the fourth to the second percentile over 1 year.

3.11 The Fund has under-performed over the past few years, largely due to its lower weighting in equities (46% of the fund, compared to the Local Authority average of

54%). As equity markets have become less buoyant, this has become less of a reason for under-performance.

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 15% 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.

**<u>Table 1: Asset allocation as at 30 September 2015 compared to the benchmark</u>**

| | 30/09/2015 | | | | | 30/06/2015 | | |
|---|---|---|---|---|---|---|---|---|
| Asset Class | Market Value (£m) | % of Fund | WM LA Average % | New Fund benchmark from July 2015 % | Variance: Actual vs New Benchmark % | Market Value (£m) | % of Fund | WM LA Average % |
| **Fixed Income** | | | | | | | | |
| Henderson – Total Return Bond Fund | 85.3 | 13.4 | 16.9 | 15.0 | -1.6 | 86.0 | 13.4 | 16.6 |
| **Equities** | | | | | | | | |
| UK – Legal & General | 84.4 | 13.3 | 21.4 | 0.0 | 13.3 | 89.4 | 13.9 | 21.4 |
| UK - Smaller Companies Fund Henderson | 27.3 | 4.3 | * | 5.0 | -0.7 | 27.0 | 4.2 | * |
| O/seas – developed Legal & General | 147.6 | 23.3 | 28.4 | 20.0 | 3.3 | 154.9 | 24.1 | 29.2 |
| O/seas – emerging Dimensional | 32.7 | 5.2 | 3.1 | 0.0 | 5.2 | 38.8 | 6.0 | 3.5 |
| Global Active Equities | 0 | 0.0 | 0.0 | 10.0 | -10.0 | 0.0 | 0.0 | 0.0 |
| Global Active Equities | 0 | 0.0 | 0.0 | 10.0 | -10.0 | 0.0 | 0.0 | 0.0 |
| **Property** | | | | | | | | |
| Aviva | 38.5 | 6.1 | 9.2 | 0.0 | 6.1 | 37.7 | 5.9 | 8.5 |
| **Private Equity** | | | | | | | | |
| Capital Dynamics | 94.5 | 14.9 | 4.6 | 10.0 | 4.9 | 86.7 | 13.5 | 4.2 |
| Yorkshire Fund | 0.86 | 0.1 | * | 0.0 | 0.1 | 0.9 | 0.1 | * |
| **Infrastructure** | | | | | | | | |
| Alinda | 30.1 | 4.7 | 1.5 | 8.0 | -3.3 | 28.8 | 4.5 | 1.5 |
| Capital Dynamics | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | * |
| Henderson PFI Fund II | | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.1 | * |
| **Pooled Multi Asset** | | | | | | | | |
| Baillie Gifford DGF | 67.6 | 10.7 | 3.5 | 21.0 | -10.3 | 68.9 | 10.7 | 3.5 |
| **Cash** | 25.52 | 4.0 | 4.0 | 1.0 | 3.0 | 22.5 | 3.5 | 2.9 |
| **TOTAL** | 634.38 | 100.0 | | 100.0 | 0.0 | 642.5 | 1.0 | |

3.14 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 September 2015.

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

| Investment Category | RETURNS | | | | | | | | Benchmark/Index Description |
|---|---|---|---|---|---|---|---|---|---|
| | Qtr Ending 30/09/15 | | | | Qtr Ending 30/06/15 | | | | |
| | Fund % | Benchmark % | Relative Return % | WM Local Auth % | Fund % | Benchmark % | Relative Return % | WM Local Auth % | |
| **Fixed Income** | | | | | | | | | |
| Henderson Total Return Bond Fund | -1.2 | 1.5 | -2.6 | -0.8 | 0.1 | 1.5 | -1.3 | 2.8 | Absolute Return 6% pa |
| **Equities** | | | | | | | | | |
| UK - Legal & General | -5.7 | -5.7 | 0.0 | -5.9 | -1.5 | -1.6 | 0.0 | -0.9 | FTSE All Share |
| UK - Small Companies Henderson | 0.0 | -1.6 | 1.7 | * | 5.3 | 5.4 | -0.1 | * | FTSE Small Cap |
| O'seas Developed - Legal & General | -4.8 | -4.7 | 0.0 | -6.1 | -5.4 | -5.4 | -0.1 | -4.5 | FTSE Dev World ex UK |
| O'seas - Emerging Dimensional | -15.8 | -14.8 | -1.3 | -13.4 | -4.7 | -5.0 | 0.3 | -4.7 | MSCI Emerging Markets |
| **Property** | | | | | | | | | |
| Aviva Investors | 2.7 | 3.0 | -0.3 | 3.0 | 2.7 | 3.3 | -0.6 | 2.6 | IPD All Properties Index |
| **Private Equity** | | | | | | | | | |
| Capital Dynamics | * | * | * | * | * | * | * | * | Absolute Return 8% pa |
| Yorkshire Fund Managers | * | * | * | * | * | * | * | * | Absolute Return 8% pa |
| **Infrastructure** | | | | | | | | | |
| Alinda Capital Partners | 6.3 | 1.9 | 4.3 | 2.8 | -2.4 | 1.9 | -4.2 | * | Absolute Return 8% pa |
| **Pooled Multi Asset** | | | | | | | | | |
| Baillie Gifford | -2.1 | 1.0 | -3.1 | -3.0 | -0.7 | 1.0 | -1.7 | * | Base Rate + 3.5% pa |
| **Cash** | 1.9 | 0.1 | | * | 0 | 0.1 | | * | Base Rate |
| **Total** | -1.3 | -2.4 | 1.2 | | -2.3 | -0.8 | -1.5 | | |

3.15 The Fund's return of -1.3% out performed its benchmark by 1.2% in the quarter to September 2015.

## Compliance with statutory investment limits

3.16 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 30 Sep 2015 | 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**

3.17 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 Mar 2015 £'000 | 30 Jun 2015 £'000 | 30 Sep 2015 £'000 |
|---|---|---|---|
| Capital Dynamics | 28,002 | 28,000 | 26,600 |
| Alinda | 2,000 | 2,000 | 3,000 |
| Yorkshire Fund Managers | 0 | 0 | 0 |
| **Total** | **30,002** | **30,000** | **36,600** |

3.18 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.

## 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.

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

AllenbridgeEpic
investment advisers

QUARTERLY REVIEW PREPARED FOR

# Brent Council Pension Fund

## Q3 2015

2 November 2015

**Peter Davies**
**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

peter.davies@allenbridgeepic.com www.allenbridgeepic.com

## Quarterly Review, June – September 2015
## Report by the Independent Financial Adviser

### Economy

1. The slowing trend of manufacturing output and job creation in the United States, together with signs of a slowdown in China, caused the Federal Reserve to hold US interest rates unchanged at its September meeting. There is now uncertainty as to whether it will feel able to raise rates during 2015 as previously planned. The Eurozone area has been the only region to see an upward revision in its forecast GDP growth in 2015. The IMF's latest forecast of 3.1% global growth in 2015 would constitute the lowest level of annual growth in the past six years.

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

[Source of estimates: The Economist, October 10th 2015]

| **Consensus real growth (%)** | | | | | | **Consumer prices latest (%)** |
|---|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015E** | **2016E** | |
| **UK** | -0.1 | +1.7 | +2.8 | +2.5 (+2.7) | +2.3 | -0.1(CPI) |
| **USA** | +2.2 | +1.9 | +2.4 | +2.5 (+3.1) | +2.6 | Nil |
| **Eurozone** | -0.5 | -0.4 | +0.8 | +1.5 (+1.1) | +1.7 | -0.1 |
| **Japan** | +1.9 | +1.7 | +0.3 | +0.7 (+1.0) | +1.2 | +0.2 |
| **China** | +7.8 | +7.7 | +7.4 | +6.8 (+7.0) | +6.5 | +1.6 |

2. On August 11th, the Chinese Central Bank suddenly announced that it would allow the currency to weaken slightly – having been very strong for the previous two years. In the event, the renminbi's parity against the dollar weakened by some 4% over the following days. This move was interpreted as a sign that China was concerned about the deteriorating balance of trade, but more broadly caused investors to question the prospects for Chinese economic growth. When combined with earlier volatility in the Chinese equity market, it was seen as a sign that the Chinese authorities were losing their grip on the economy.

3. This caused sharp falls in the Shanghai Composite Index, and the nervousness then spread to all world equity markets. Initially there was no official response in China, but on August 25th the Central Bank cut interest rates by 0.25% and eased bank reserve requirements. Short-selling was banned in China, and 'culprits' for the stockmarket's weakness were identified. In response to doubts about the Chinese economy, commodity prices fell sharply, with the oil price falling 30% in July and August, before rallying in September. Base metal prices also weakened, on the expectation of reducing demand from China.

4. Days after the Greek parliament had approved the terms of the European bailout on August 14th, the Greek prime minister, Mr Tsipras resigned and a General Election was called for September 20th. This resulted in a renewed term for his Syriza party, again in coalition with the Greek National party.

5. The election of Jeremy Corbyn as leader of the Labour Party, and the announcements of the various campaign groups for the EU Referendum, seem likely to inaugurate a period of unpredictability on the British political scene.

## Markets

6. **Equities** experienced their worst quarter for four years, with particular weakness in the Asian markets in response to the apparent travails of the Chinese economy, and depreciation of currencies in the region following the un-pegging of the renminbi.

| | **Capital return (in £, %) to 30.9.15** | | |
|---|---|---|---|
| **Weight %** | Region | **3 months** | **12 months** |
| **100.0** | FTSE All-World Index | **-6.4** | **-1.8** |
| 54.6 | FTSE All-World North America | -4.1 | +2.5 |
| 8.4 | FTSE All-World Japan | -8.7 | +4.2 |
| 11.2 | FTSE All-World Asia Pacific ex Japan | -14.1 | -10.8 |
| 16.3 | FTSE All-World Europe (ex-UK) | -5.0 | -4.6 |
| 7.2 | FTSE All-World UK | -7.0 | -8.0 |
| 8.5 | FTSE All-World Emerging Markets | -16.5 | -15.2 |

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

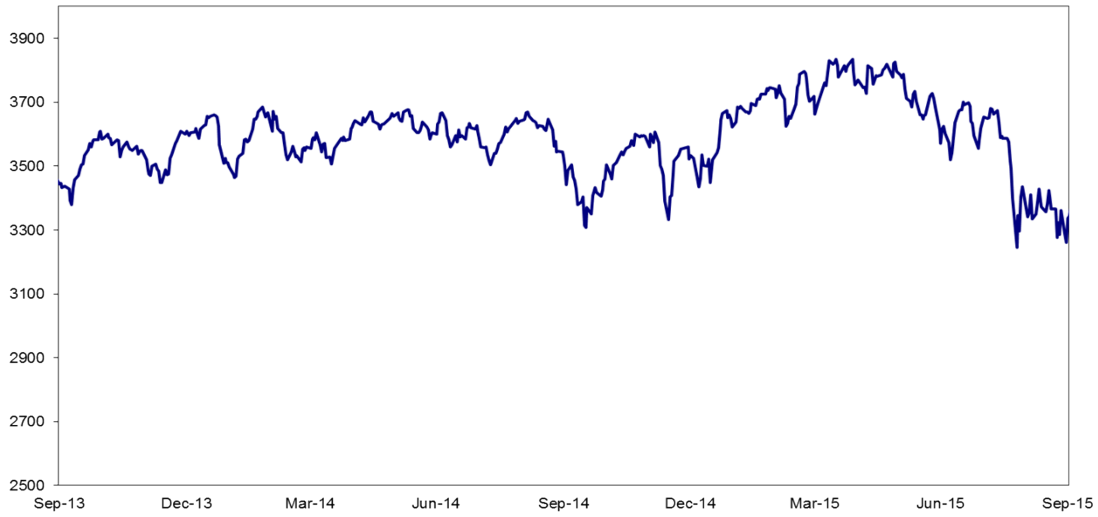
7. In the **UK equity market**, sharp falls in Mining companies – notably Glencore and Anglo American – were largely responsible for a greater fall in the FTSE 100 than in the mid- and small-cap sectors during the quarter.

| **(Capital only %, to 30.9.15)** | **3 months** | **12 months** |
|---|---|---|
| **FTSE 100** | **-7.0** | **-8.5** |
| **FTSE 250** | **-4.8** | **+8.5** |
| **FTSE Small Cap** | **-4.2** | **+2.4** |
| **FTSE All-Share** | **-6.6** | **-5.6** |

[Source: Financial Times]

In mid-September, the All-Share Index touched its lowest level for two years.

UK FTSE All-Share




8. Globally, all equity sectors declined, with the energy and mining sectors once more seeing the weakest performances.

| **Capital return (in £, %) to 30.9.15** | | |
|---|---|---|
| **Industry Group** | **3 months** | **12 months** |
| Consumer Services | -1.5 | +13.5 |
| Health Care | - 5.8 | +8.4 |
| Consumer Goods | -2.1 | + 6.2 |
| Technology | -3.0 | +3.0 |
| **FTSE All-World** | **-6.4** | **-1.8** |
| Financials | -7.9 | -2.2 |
| Industrials | -7.4 | -3.1 |
| Utilities | +0.4 | - 3.7 |

| | | |
|---|---|---|
| Telecommunications | -7.4 | -5.6 |
| Basic Materials | -17.3 | - 21.4 |
| Oil & Gas | - 16.1 | -30.7 |

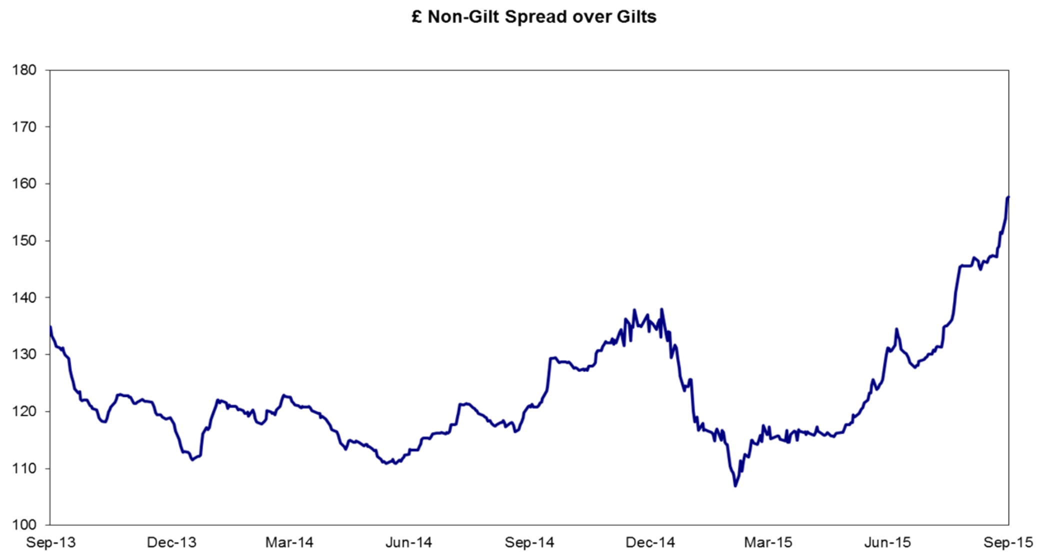
[Source: FTSE All-World Review, September 2015]

9. Prices of **Government Bonds** in the 'safe haven' countries rose to end-2014 levels, on the expectation that global growth was slowing and that weak energy and metals prices would bring down the levels of consumer price inflation worldwide.

| **10-year government bond yields (%)** | | | | | |
|---|---|---|---|---|---|
| | **Dec 12** | **Dec 13** | **Dec 2014** | **June 2015** | **Sept 2015** |
| **US** | 1.76 | 3.03 | 2.17 | 2.32 | 2.06 |
| **UK** | 1.85 | 3.04 | 1.76 | 2.14 | 1.77 |
| **Germany** | 1.32 | 1.94 | 0.54 | 0.77 | 0.59 |
| **Japan** | 0.79 | 0.74 | 0.33 | 0.45 | 0.35 |

[Source: Financial Times]

10. The yield spread of corporate bonds over government bonds continued to widen, mainly because of the higher level of risk in bonds issued by energy and metals exploration companies. The graph below shows the situation in the **UK corporate bond** market.




## Currencies

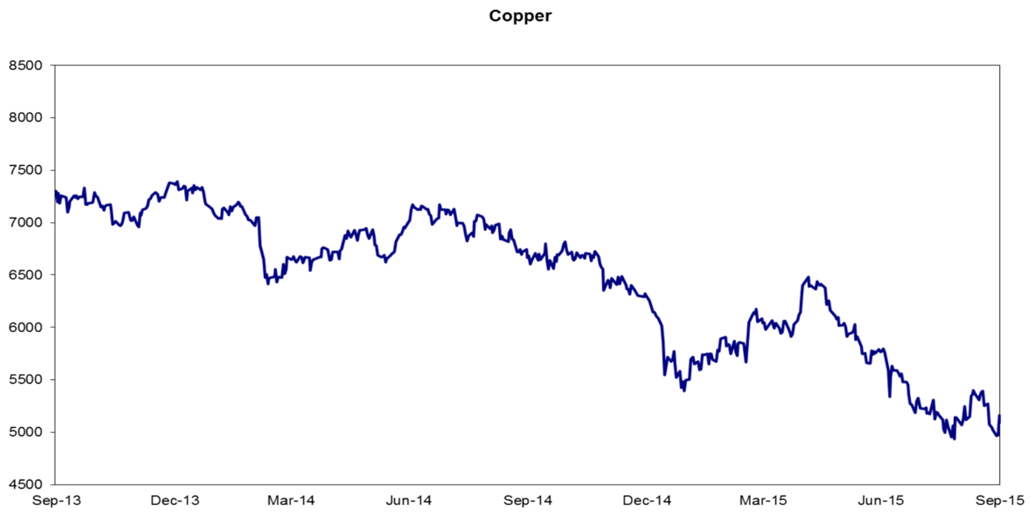
11. Sterling lost ground against all three of the major currencies during the quarter, but is still strong against the Euro and Yen over 12 months.

| | | | | £ move (%) | |
|---|---|---|---|---|---|
| | **30.9.14** | **30.6.15** | **30.9.15** | **3m** | **12m** |
| $ per £ | 1.621 | 1.573 | 1.515 | -3.7 | -6.5 |
| € per £ | 1.283 | 1.412 | 1.357 | -3.9 | +5.8 |
| Y per £ | 177.8 | 192.4 | 181.4 | -5.7 | +2.0 |

[Source: Financial Times]


## Commodities

12. In mid-August the price of **copper** fell below $5,000 per tonne – its lowest level for six years. The main cause was the expectation of lower growth from China (the consumer of 45% of world copper output), and also the likely moves from the Chinese authorities to stimulate consumer spending and downplay capital investment. Several of the major copper producers have since announced plans to close down some of their mines, in an attempt to restore the supply-demand imbalance




13. The price of **oil** fell by no less than 30% between end-June and mid-August: Brent Crude moved from $63 per barrel to $45, before recovering to $53 at end-August, but ending the quarter at $48.5. As with metals, the main reason was the sign of a slowdown in the Chinese – and hence global – growth, coupled with fears of over-supply.


## Property

14. Despite the troubled equity markets, **UK Property** continued to report steady gains, with the Office and Industrial sectors once more outpacing Retail Property. The 12-month performance of property contrasts sharply with that of UK Equities during the same period, reinforcing Property's value as a diversifying asset class within a portfolio.

| | 3-month | 12-month |
|---|---|---|
| **All Property** | **+3.4%** | **+15.3%** |
| **Retail** | **+2.2%** | **+9.5%** |
| **Office** | **+4.3%** | **+20.5%** |
| **Industrial** | **+4.6%** | **+19.7%** |

**[IPD Monthly Index of total returns, September 2015]**

## Outlook

15. In the third quarter, equity markets finally confronted the prospect of slowing growth in China and the United States, and fell sharply amid increasing volatility. Having previously welcomed the continuation of low interest rates by Central Banks, investors now began to worry about the impact on corporate profits – especially among highly-geared commodities producers.

16. This correction in equities has to some extent moderated the discrepancy between bond markets (priced for low inflation and low growth) and equity markets (priced for growth in corporate profits). The rebound in equity prices in October – when markets rose by some 5% – looks more like a technical rally than a reflection of any fundamental change in the economic backdrop. It is worth noting that on October 23rd the Chinese Central Bank again reduced interest rates by ¼%, and cut bank reserve requirements, to provide support for the property sector in China.

17. With the scope for increased geo-political tension in Syria and the Middle East, together with the subdued economic outlook, it is hard to envisage equities gaining further ground after their October rally.

**Peter Davies**
**Senior Adviser – AllenbridgeEpic Investment Advisers**

**November 2nd, 2015**

[All graphs supplied by Legal & General Investment Management]

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ITEM NO:

| | |
|---|---|
| Brent | **Pension Fund Sub-Committee**<br>23rd February 2016<br>**Report from the Chief Finance Officer** |
| For Information | Wards Affected: ALL |
| **Quarterly monitoring report on fund activity: Quarter to December 2015** | |

## 1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 December 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 4.2% from £634.4 to £661.2m during the quarter ended 31 December 2015. In the (calendar) year to 31 December 2015 the value of the fund has risen from £627.2m to £661.2m or by 5.2%

b) During the quarter the holdings in the Dimensional fund were sold. £34m of the proceeds were invested in the overseas Legal and General tracker fund and the remaining £365,081 is being held in cash.

c) Equities produced mixed performance in the quarter. The Legal and General UK index tracker increased in value by 3.3% whilst the UK smaller companies fund decreased in value by 2.1%. The Legal and General overseas tracker fund increased in value by £47.9m (including the £34m additional investment during the quarter).

d) Private equity was the worst performing asset class, with both the Capital Dynamics and Yorkshire funds decreasing in value (by 2.3% and 7.0% respectively).

## 2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

## 3. DETAIL

**Economic and market background – quarter to 31 December 2015**

3.1 Having delivered losses for investors over the second and third quarters, global equity indices rebounded during the final quarter of 2015. Investor sentiment faced a number of challenges including geopolitical concerns and the mixed messages of recent economic and corporate data. However the key event was the Federal Reserve's decision to raise US interest rates for the first time in nearly a decade.

3.2 In the UK, equities rose over the quarter, driven primarily by large cap defensive stocks. In November, the bank of England indicated that interest rates might not rise until 2017 and lowered its UK inflation and growth forecasts for this year and next, blaming the strong pound and slowing expansion in emerging economies.

3.3 US stocks delivered positive returns for the quarter, with notable losses in the energy sector. The Federal Reserve expressed caution about inflation levels. It is expected that economic conditions will evolve in a manner that will warrant only gradual interest rate increases.

3.4 In Europe, GDP figures confirmed that Eurozone growth had slowed to 0.3% in the third quarter from 0.4% in the second. In December the ECB delivered a reduction in the deposit rate and an extension to the length of its QE programme.

3.5 Emerging markets continued to lag developed markets in the final quarter of 2015. Given the importance of US dollar flows for emerging market debt, accordingly the expected US interest rate hike at the start of December inevitably left to softening in emerging market performance. In China, industrial production improved to year-on-year growth of 6.2% from 5.6% in the previous period.

3.6 2015 was a strong year for property investments, with volumes robust despite initial fears the general election and geo-political unrest could dampen activity. Supported by the likelihood of continued very low borrowing rates and sustained economic expansion, domestic and overseas capital has spread nationally, leading to a broader rise in capital values. The strength of the UK property market is expected to continue in 2016, giving property a premium over equities and bonds.

3.8 A market review for the quarter ended 31 December 2015, written by the Independent Financial Adviser, is attached.

**Investment performance of the Fund**

3.9 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark 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 2015 compared to the benchmark

| | 31/12/2015 | | | | | | 30/09/2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| Asset Class | Market Value (£m) | % of Fund | Increase/ decrease (£m) | WM LA Average % | New Fund benchmark from July 2015 % | Variance: Actual vs New Benchmark % | Market Value (£m) | % of Fund | WM LA Average % |
| **Fixed Income** | | | | | | | | | |
| Henderson – Total Return Bond Fund | 86.4 | 13.1 | 1.1 | 16.9 | 15.0 | -1.9 | 85.3 | 13.4 | 16.9 |
| **Equities** | | | | | | | | | |
| UK – Legal & General | 87.7 | 13.3 | 3.3 | 21.0 | 0.0 | 13.3 | 84.4 | 13.3 | 21.4 |
| UK - Smaller Companies Fund Henderson | 26.7 | 4.0 | -0.6 | * | 5.0 | -1.0 | 27.3 | 4.3 | * |
| O/seas – developed Legal & General | 195.5 | 29.6 | 47.9 | 35.3 | 20.0 | 9.6 | 147.6 | 23.3 | 28.4 |
| O/seas – emerging Dimensional | 0 | 0.0 | -32.7 | 2.9 | 0.0 | 0.0 | 32.7 | 5.2 | 3.1 |
| Global Active Equities | 0 | 0.0 | 0.0 | 0.0 | 10.0 | -10.0 | 0.0 | 0.0 | 0.0 |
| Global Active Equities | 0 | 0.0 | 0.0 | 0.0 | 10.0 | -10.0 | 0.0 | 0.0 | 0.0 |
| **Property** | | | | | | | | | |
| Aviva | 38.5 | 5.8 | 0.0 | 8.6 | 0.0 | 5.8 | 38.5 | 6.1 | 9.2 |
| **Private Equity** | | | | | | | | | |
| Capital Dynamics | 92.3 | 14.0 | -2.2 | 4.6 | 10.0 | 4.0 | 94.5 | 14.9 | 4.6 |
| Yorkshire Fund | 0.8 | 0.1 | -0.1 | * | 0.0 | 0.1 | 0.9 | 0.1 | * |
| **Infrastructure** | | | | | | | | | |
| Alinda | 30.8 | 4.7 | 0.7 | 0.9 | 8.0 | -3.3 | 30.1 | 4.7 | 1.5 |
| Capital Dynamics | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| Henderson PFI Fund II | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| **Pooled Multi Asset** | | | | | | | | | |
| Baillie Gifford DGF | 68.8 | 10.4 | 1.2 | 2.1 | 21.0 | -10.6 | 67.6 | 10.7 | 3.5 |
| **Cash** | 33.7 | 5.1 | 8.2 | 3.0 | 1.0 | 4.1 | 25.5 | 4.0 | 4.0 |
| **TOTAL** | 661.2 | 100.0 | 26.8 | | 100.0 | 0.0 | 634.4 | 100.0 | |

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

## Table 2: Investment Returns in Individual Markets

| Investment Category | RETURNS | | | | | | | | Benchmark/Index Description |
|---|---|---|---|---|---|---|---|---|---|
| | Qtr Ending 31/12/15 | | | | Qtr Ending 30/09/15 | | | | |
| | Fund % | Benchmark % | Relative Return % | WM Local Auth % | Fund % | Benchmark % | Relative Return % | WM Local Auth % | |
| **Fixed Income** | | | | | | | | | |
| Henderson Total Return Bond Fund | 1.3 | 1.0 | 0.3 | -0.6 | -1.2 | 1.5 | -2.6 | -0.8 | Absolute Return 6% pa |
| **Equities** | | | | | | | | | |
| UK - Legal & General | 4.0 | 4.0 | 0.0 | 3.7 | -5.7 | -5.7 | 0.0 | -5.9 | FTSE All Share |
| UK - Small Companies Henderson | -2.2 | 2.7 | -4.9 | * | 0.0 | -1.6 | 1.7 | * | FTSE Small Cap |
| O'seas Developed - Legal & General | 9.0 | 9.0 | 0.0 | 8.6 | -4.8 | -4.7 | 0.0 | -6.1 | FTSE Dev World ex UK |
| O'seas - Emerging Dimensional | 0.0 | 0.0 | 0.0 | 4.9 | -15.8 | -14.8 | -1.3 | -13.4 | MSCI Emerging Markets |
| **Property** | | | | | | | | | |
| Aviva Investors | 0.0 | 2.9 | -2.9 | 3.0 | 2.7 | 3.0 | -0.3 | 3.0 | IPD All Properties Index |
| **Private Equity** | | | | | | | | | |
| Capital Dynamics | * | * | * | * | * | * | * | * | Absolute Return 8% pa |
| Yorkshire Fund Managers | * | * | * | * | * | * | * | * | Absolute Return 8% pa |
| **Infrastructure** | | | | | | | | | |
| Alinda Capital Partners | 4.2 | 1.9 | 2.3 | 0.3 | 6.3 | 1.9 | 4.3 | 2.8 | Absolute Return 8% pa |
| **Pooled Multi Asset** | | | | | | | | | |
| Baillie Gifford | 2.5 | 1.0 | 1.5 | 1.0 | -2.1 | 1.0 | -3.1 | -3.0 | Base Rate + 3.5% pa |
| **Cash** | 0 | 0.1 | -0.1 | 0.8 | 1.9 | 0.1 | 0.8 | * | Base Rate |
| **Total** | | | | | -1.3 | -2.4 | 1.2 | | |

### Compliance with statutory investment limits

3.11 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 2015 | 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**

3.12 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:

| | 30 Jun 2015 £'000 | 30 Sep 2015 £'000 | 31 Dec 2015 £'000 |
|---|---|---|---|
| Capital Dynamics | 28,000 | 26,600 | 26,600 |
| Alinda | 2,000 | 3,000 | 20,600 |
| Yorkshire Fund Managers | 0 | 0 | 0 |
| **Total** | **30,000** | **36,600** | **46,600** |

3.13 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. 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 2015 quarterly report
Legal & General – December 2015 quarterly report
Dimensional Asset Management – December 2015 quarterly report
Baillie Gifford – December 2015 quarterly report

## 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**

AllenbridgeEpic
investment advisers

QUARTERLY REVIEW PREPARED FOR

# Brent Council Pension Fund

## Q4 2015

25 January 2016

**Peter Davies**
**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

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## Report by the Independent Financial Adviser

### Economy

1. There has been little change in the forecasts for GDP growth during the past three months, but the consequences of the long-heralded slowdown in the Chinese economy are beginning to dominate commodity markets, stock markets and currencies. It has been well known that China wanted to rebalance its economy away from capital investment in infrastructure and towards private consumption, and yet the reality of this policy appears to have taken investors by surprise.

(In the table below, bracketed figures show the forecasts three months ago)
[Source of estimates: The Economist, January 9th, 2016]

| **Consensus real growth (%)** | | | | | | **Consumer prices latest (%)** |
|---|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015E** | **2016E** | |
| **UK** | -0.1 | +1.7 | +2.8 | +2.4 (+2.5) | +2.2 | +0.2 (CPI) |
| **USA** | +2.2 | +1.9 | +2.4 | +2.5 (+2.5) | +2.6 | +0.5 |
| **Eurozone** | -0.5 | -0.4 | +0.8 | +1.5 (+1.5) | +1.7 | +0.2 |
| **Japan** | +1.9 | +1.7 | +0.3 | +0.6 (+0.7) | +1.1 | +0.3 |
| **China** | +7.8 | +7.7 | +7.4 | +6.9 (+6.8) | +6.4 | +1.5 |

2. On December 16th, the Federal Reserve finally raised its interest rate by 0.25% (to a range of 0.25 – 0.5%) but indicated that it expected to make only 'gradual' future increases. This mild language was initially well received by equity markets. The European Central Bank had earlier tightened the penalty interest rate on central bank deposits from -0.2% to -0.3%, and announced that quantitative easing of €600bn per month would be extended from September 2016 to March 2017.

3. The massacre of 130 people in Paris on November 13th by followers of Islamic State caused universal outrage and precipitated the decision by the British parliament to permit UK aircraft to extend their operations to Syria. International tension had already increased when a Russian passenger plane had been shot down shortly after taking off from Egypt in October, to be followed three weeks later by the downing of a Russian fighter jet which had allegedly entered Turkish airspace.

4. In the French regional elections in December, the Front National polled strongly in the first round, but then failed to win any of the 13 regions in the final vote, after a pact between the Socialist and Republican parties. In Spain the ruling People's Party failed to secure an overall majority in parliament after a strong showing by the anti-austerity Podemos and the liberal Ciudadanos parties. The make-up of the new Spanish government is still under discussion.

5. The most striking features of the UK Spending Review in November were the Chancellor's abandonment of plans to cut £4.4bn from tax credits for working people, and the maintenance of the police budget. Extra levies were announced on apprenticeships, on

stamp duty for second homes and buy-to-let purchases, as well as a 2% rise in Council Tax if used for additional spending on social care. The Public Sector Borrowing Requirement was forecast to be 3.9% of GDP in 2015-16, but to reach a *surplus* of 0.5% in 2019-20. The Chancellor's forecasts were helped by a £27bn revision in revenue and spending projections over the next five years by the Office for Budget Responsibility.

6. The South African President, Mr Zuma, caused consternation in markets in mid-December by suddenly firing his Finance Minister, Mr Nene, and replacing him with a financially inexperienced MP. Days later the president revoked this appointment and named Pravin Gordhan, who had served previously as Finance Minister. The rand has continued to weaken, nevertheless.

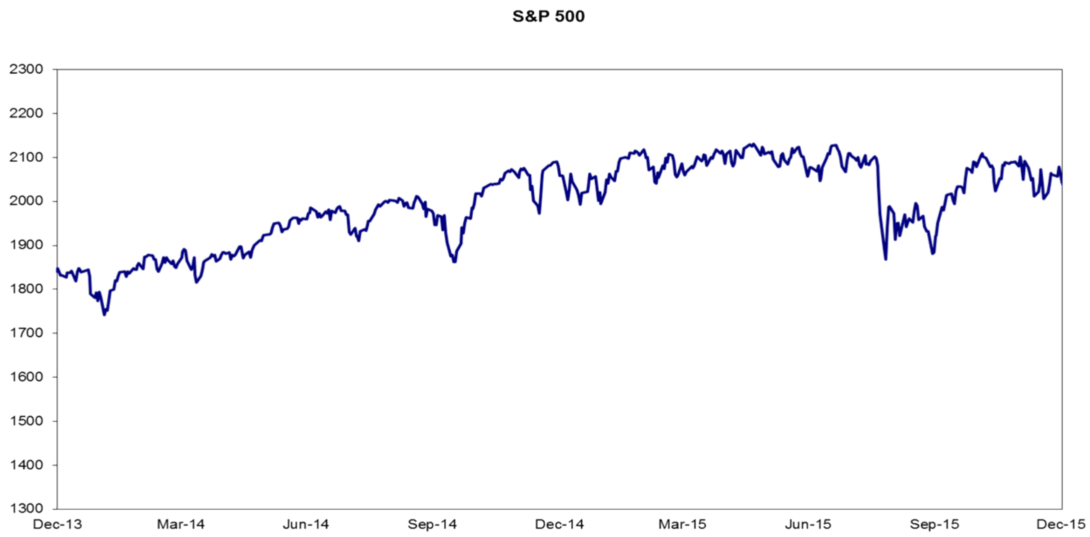
## Markets

Equities

7. While the All-World Index recouped its third-quarter losses, despite a nervous patch in early December, this was almost entirely attributable to the strength of US equities and the dollar (see graph below). UK, European, Asia-Pacific and Emerging Markets all ended December lower than their end-June levels. For the year 2015, Emerging Markets lagged well behind the Developed Markets, affected variously by lower oil and commodity prices, the slowing of Chinese imports, and currency weakness following the slight depreciation of the Chinese yuan since August.

| | **Capital return (in £, %) to 31.12.15** | | |
|---|---|---|---|
| **Weight %** | Region | **3 months** | **12 months** |
| **100.0** | FTSE All-World Index | **+7.6** | **+1.5** |
| 54.8 | FTSE All-World North America | +8.4 | +3.1 |
| 8.8 | FTSE All-World Japan | +12.3 | +15.4 |
| 11.2 | FTSE All-World Asia Pacific ex Japan | +7.8 | -6.4 |
| 16.0 | FTSE All-World Europe (ex-UK) | +5.6 | +2.4 |
| 6.9 | FTSE All-World UK | +3.0 | -4.4 |
| 8.1 | FTSE All-World Emerging Markets | +2.8 | -12.9 |

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




8. Although all global industrial sectors recorded gains in the quarter, Basic Materials and Oil & Gas remained the laggards as commodity prices continued to fall. Healthcare was buoyed up by actual and prospective merger activity among the major pharmaceutical companies.

| **Capital return (in £, %) to 31.12.15** | | |
|---|---|---|
| **Industry Group** | **3 months** | **12 months** |
| Health Care | +9.9 | +11.6 |
| Consumer Services | +7.5 | +10.2 |
| Consumer Goods | +9.0 | +8.8 |
| Technology | +11.2 | +7.1 |
| **FTSE All-World** | **+7.6** | **+1.5** |
| Industrials | +8.7 | +0.6 |
| Telecommunications | +5.5 | -0.2 |
| Financials | +6.4 | -1.6 |
| Utilities | +3.1 | -6.1 |
| Basic Materials | +5.0 | -14.6 |
| Oil & Gas | +1.9 | -19.0 |

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

9. The heavy representation of resource stocks in the FTSE 100 Index ensured that it once more lagged the medium- and small-cap sectors.

| (Capital only %, to 31.12.15) | 3 months | 12 months |
|---|---|---|
| FTSE 100 | + 3.0 | - 4.9 |
| FTSE 250 | + 4.5 | +8.4 |
| FTSE Small Cap | + 3.4 | +6.2 |
| FTSE All-Share | + 3.2 | -2.5 |

[Source: Financial Times]

Bonds

10. The prices of government bonds fell, with the result that yields in the major developed markets ended the year slightly above their end-2014 levels. The spreads on corporate bonds relative to government bonds remained much wider than at the start of 2014, driven mainly by the weakness in bonds issued by resource companies.

| 10-year government bond yields (%) | | | | | |
|---|---|---|---|---|---|
| | Dec 12 | Dec 13 | Dec 2014 | Sept 2015 | Dec 2015 |
| US | 1.76 | 3.03 | 2.17 | 2.06 | 2.27 |
| UK | 1.85 | 3.04 | 1.76 | 1.77 | 1.96 |
| Germany | 1.32 | 1.94 | 0.54 | 0.59 | 0.63 |
| Japan | 0.79 | 0.74 | 0.33 | 0.35 | 0.27 |

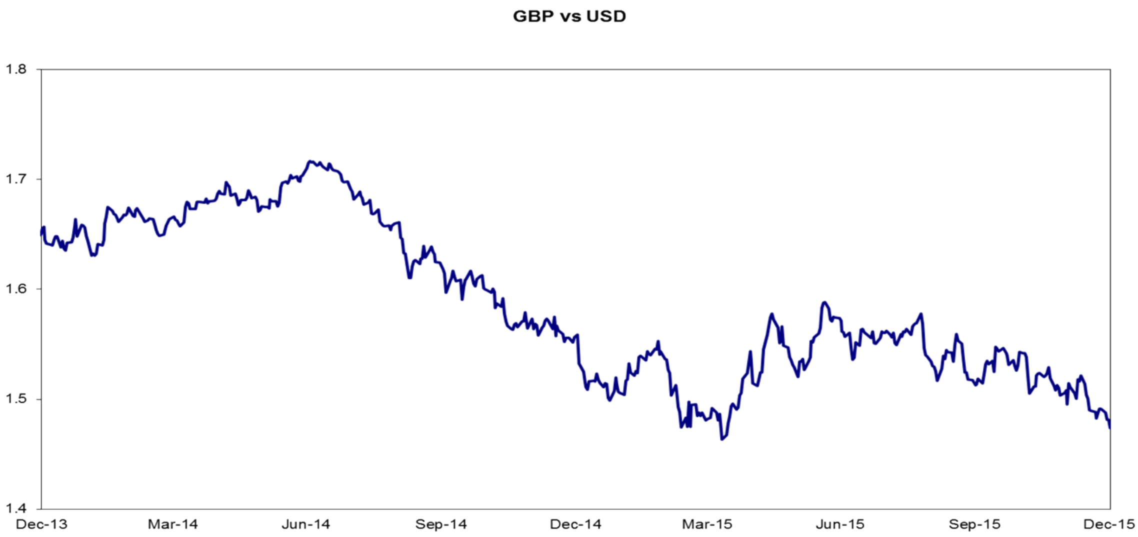
[Source: Financial Times]

## Currencies

11. The US dollar gained ground steadily during the quarter as it became more likely that the Federal Reserve would raise interest rates  - an expectation confirmed by the announcement on December 16th.

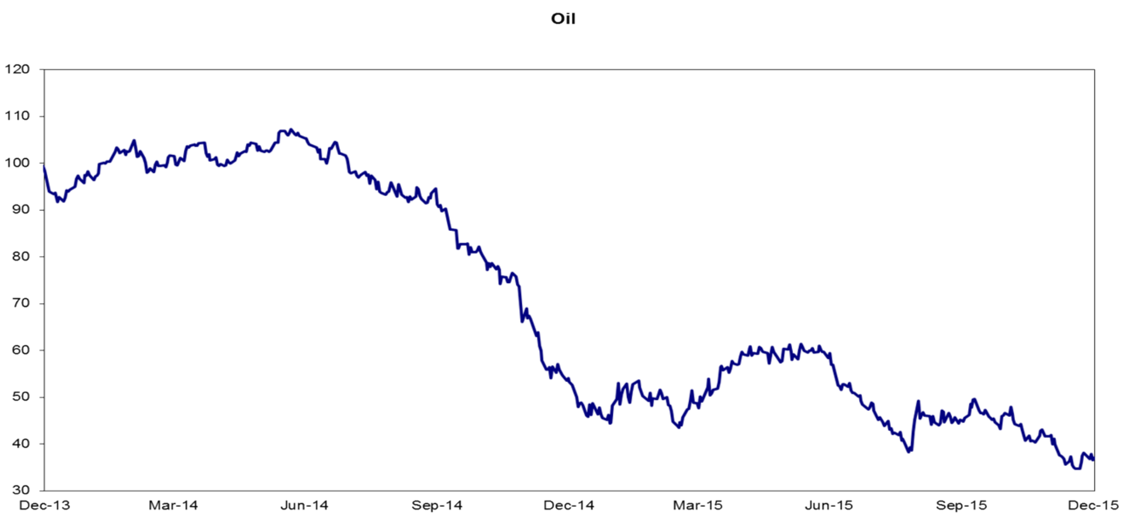
| | | | | £ move (%) | |
|---|---|---|---|---|---|
| | 31.12.14 | 30.9.15 | 31.12.15 | 3m | 12m |
| $ per £ | 1.559 | 1.515 | 1.474 | -2.7 | -5.5 |
| € per £ | 1.289 | 1.357 | 1.357 | unch | +5.3 |
| Y per £ | 186.9 | 181.4 | 177.3 | -2.3 | -5.1 |

[Source: Financial Times]

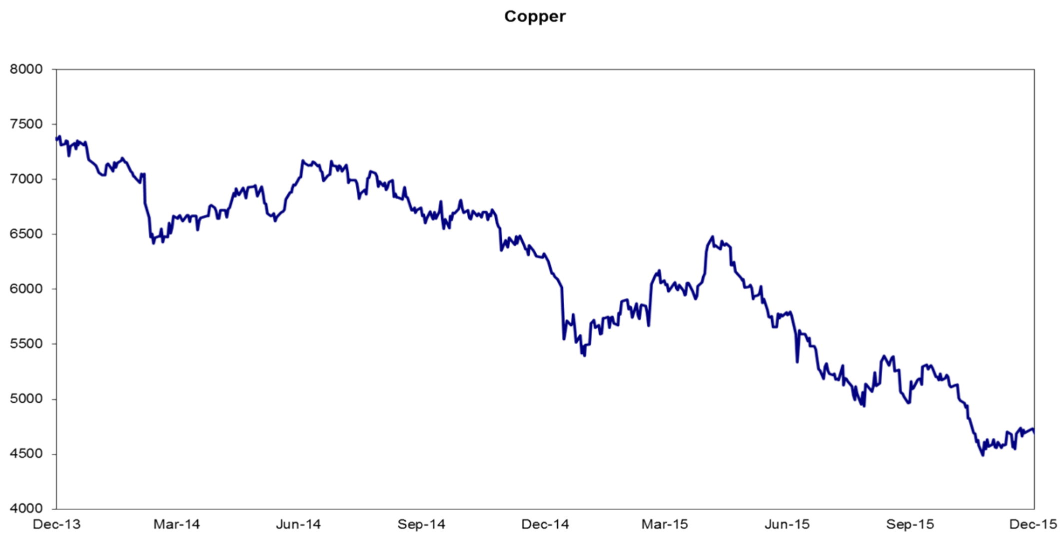



## Commodities

12. The price of **oil**, as measured by Brent Crude, fell by over one-fifth from, $48.5 to $37.5, during the quarter as reduced demand was compounded by the failure of the OPEC oil producers to agree on any supply reductions. The slide in the oil price became even steeper in the New Year, and Brent Crude touched $28 in mid-January.




13. The **copper** price also fell, touching a 6-year low in late-November on reduced demand from China, which consumes over 40% of the world's copper output. **Gold** remained stable at around $1100/oz.




## Property

14. UK Property continue to give a steady positive return, and although the All-Property Index gain of 13.8% for the year failed to match the 19.3% gain recorded in 2013, the 3-year total return for UK Property stands at an impressive 50%.

| | 3-month | 12-month |
|---|---|---|
| **All Property** | **+3.1%** | **+13.8%** |
| **Retail** | **+2.3%** | **+ 8.9%** |
| **Office** | **+3.6%** | **+18.2%** |
| **Industrial** | **+3.8%** | **+17.3%** |

**[IPD Monthly Index of total returns, December 2015]**

## Outlook

15. 2016 has opened with a severe bout of nerves in world equity markets. The tone was set in the first week of January, when trading on the Shanghai market was suspended on two days because shares had fallen far enough to trigger the newly-introduced (and hastily abandoned) 'circuit-breakers'. As in August, this raised doubts about the competence of the Chinese authorities, and a small downward shift in the official rate for the yuan/dollar evoked further memories of last summer's problems.

16. Geo-political tension has escalated with the breaking off of diplomatic relations between Saudi Arabia and Iran after the Saudis executed a Shia cleric, and the reported testing of a hydrogen bomb by North Korea on January 6th did little to settle nerves. Sanctions on Iran were lifted after it satisfied that IAEA about the scaling down of its nuclear

programme; this raised the prospect of yet more oil being offered on world markets, further depressing the oil price.

17. In the first three weeks of January, UK Equities have lost 6%, while the major overseas markets are showing losses (in sterling terms) of 5-7%. The worries about a global economic slowdown have caused a flight to dollars and 'safe-haven' government bonds, with the result that the dollar has gained 4% against sterling and the yields on 10-year US government bonds have fallen by 0.21% in the past three weeks (with similar falls in gilt and bund yields).

18. The recent jitters in equity markets are similar in cause and scale to the events of Q3 2015, being ignited by worries about slowing growth in China. What is overlooked in many discussions is the fact that *global* GDP growth is likely to be as strong in 2016 as in 2015, thanks to the US and Continental Europe offsetting China's slight slowdown. The world is far from being in a deflationary spiral – of slowing economic activity – and the falling oil price ensures that consumer price rises will continue to run at well below trend levels.

19. As the positive aspects of these developments begin to be appreciated, I expect equity markets to hold above their January lows, even if short-term volatility continues to be a feature of day-to-day movements. I expect yields on medium-term government bonds to stay at current low levels, however, while inflation is so muted throughout most of the world.

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**January 25th, 2016**

[All graphs supplied by Legal & General Investment Management]