

London Borough of Brent Pension Fund

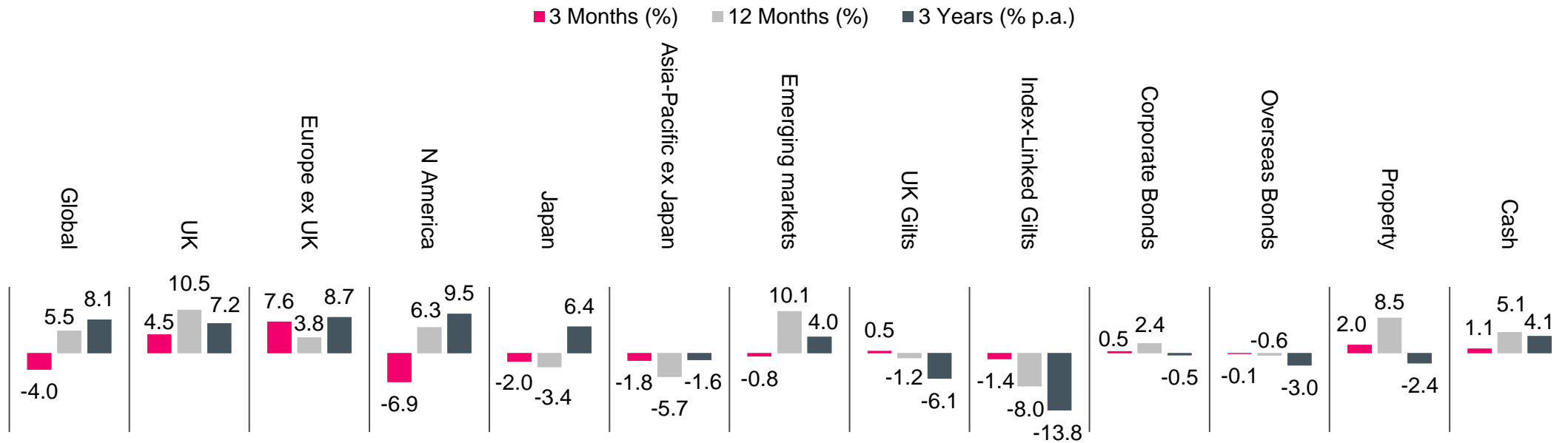
Q1 2025 Investment Monitoring Report

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Market Background

Historical returns for world markets



Data source: LSEG DataStream. ^[1] FTSE All World Indices. Commentary compares regional equity returns in local currency. ^[2] Returns shown in Sterling terms and relative to FTSE All World. ^[3] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK SONIA.

Market Background

Market update

Annualised US GDP grew 2.4% in Q4, supported by consumer and government spending. Early Q1 surveys suggest a slower start to 2025 due to tariff uncertainty. European growth stayed muted, but recent PMIs improved amid optimism around defence and infrastructure investment.

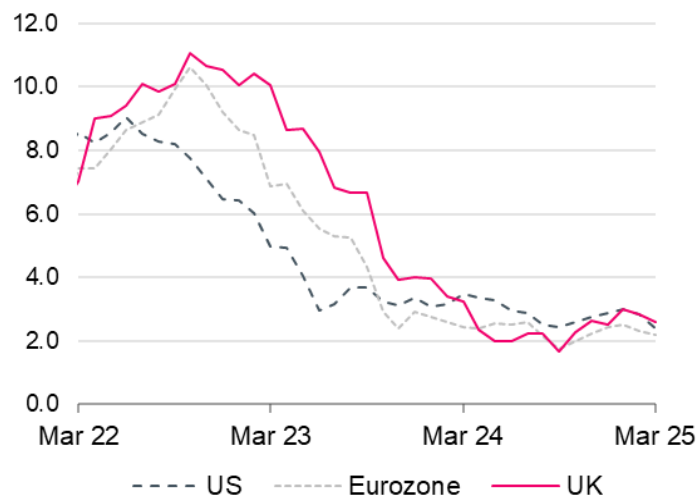
In March, annual headline CPI inflation cooled in the US, UK, and eurozone – to 2.4%, 2.6%, and 2.2%, respectively. Forecasts suggest UK inflation will quicken temporarily before easing towards 2%. Core inflation remained higher: at 2.8%, 3.4%, and 2.4% in the US, UK, and eurozone.

The European Central Bank cut rates twice, to 2.5% pa, while the Bank of England reduced rates 0.25% pa, to 4.5% pa. The US Federal Reserve held rates at 4.5% pa. However, by quarter-end, expectations for US cuts had risen to three in 2025.

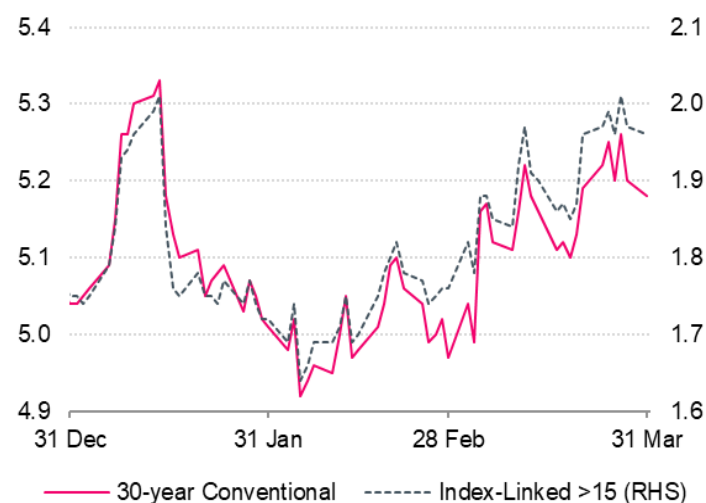
The prospect of further cuts dragged the trade-weighted US dollar down 2.3%. The equivalent yen measure gained 3.3% as interest-rate differentials narrowed. Gold surged 19% in Q1, to record highs, supported by economic uncertainty, a weaker dollar, and falling US treasury yields.

US 10-year yields fell 0.4% pa, to 4.2%, as investors focused on tariffs' growth risks. European sovereign bond yields rose as investors anticipated higher issuance and defence and infrastructure spending. German bond yields climbed 0.4% pa, to 2.7% pa, while UK yields edged up 0.1% pa, to 4.7% pa. Japanese yields also rose 0.4% pa, to 1.5% pa, reflecting moderate economic recovery and expectations of monetary policy normalisation. at quarter-end.

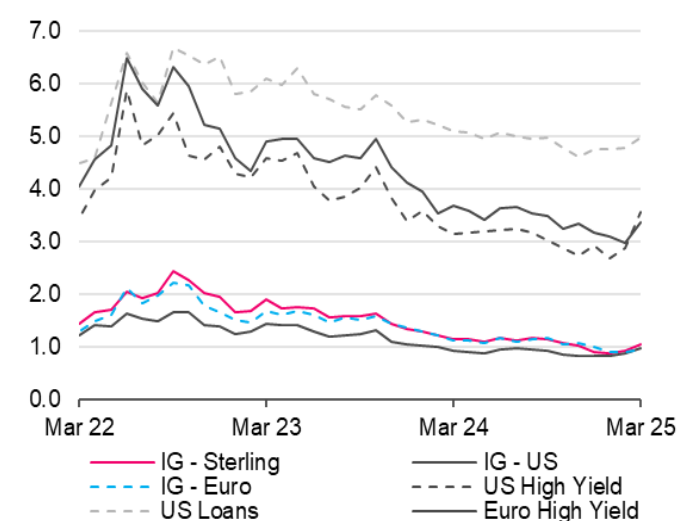
Annual CPI Inflation (% year on year)



Gilt yields chart (% p.a.)

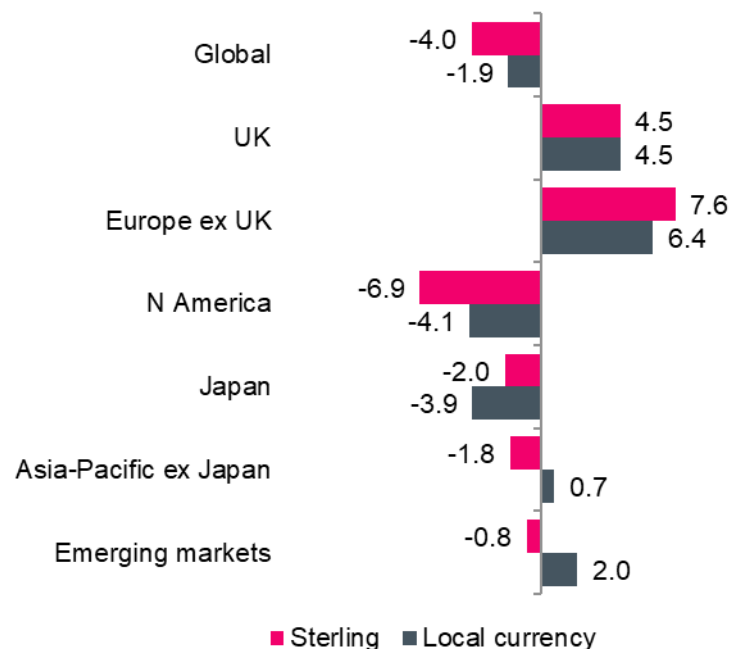


Investment and speculative grade credit spreads (% p.a.)

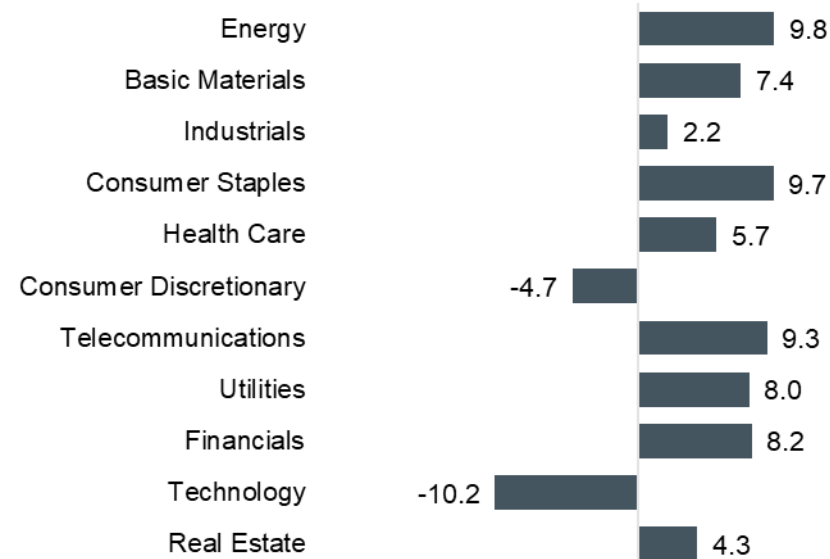


Market Background

Regional equity returns ^[1]



Global equity sector returns ^[2]



Market commentary

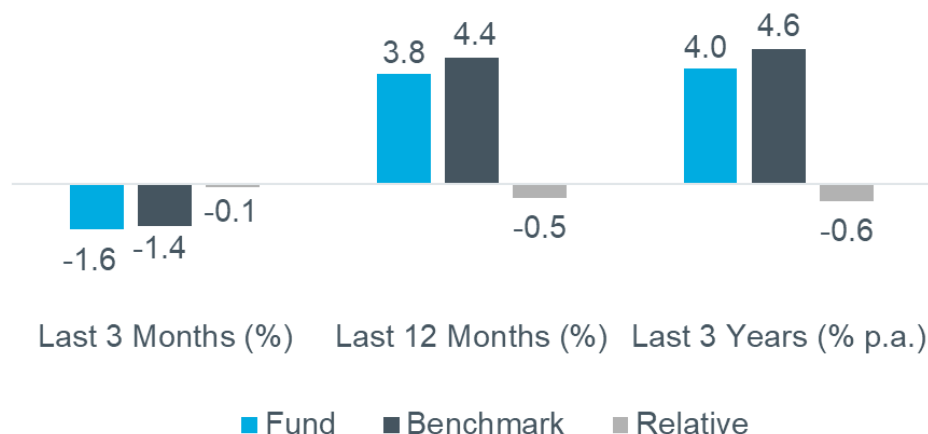
UK investment-grade credit spreads widened 0.1% pa, to 1.1% pa, in sympathy with their US counterparts. Meanwhile, European investment-grade spreads fell. US speculative-grade credit spreads rose 0.6% pa, to 3.6% pa, while equivalent European spreads rose less, by 0.2% pa, to 3.3% pa. Spreads remained low relative to longer-term averages at quarter-end.

Global equities fell in Q1, with the FTSE All World down 1.9%, as tariff-driven uncertainty affected sentiment. Investors favoured lower-valued stocks over expensive US tech, with value outperforming growth. US equities underperformed, marking their weakest quarter since 2022. Japanese equities lagged as yen strength weighed on exports. Europe ex-UK outperformed globally, buoyed by its value tilt, and optimism around fiscal spending. UK equities similarly benefited from value outperformance. Emerging markets and Asia Pacific ex Japan outperformed.

The MSCI UK Property Total Return index rose 2.0% in Q1, supported by income and capital growth. Over 12- months, the index gained 8.5%, including a 2.5% rise in aggregate capital values. Industrial and retail capital values rose 5.1% and 3.9% in 12 months, while offices fell 3.1%.

4 Data source: LSEG DataStream. ^[1] FTSE All World Indices. Commentary compares regional equity returns in local currency. ^[2] Returns shown in Sterling terms and relative to FTSE All World

Total fund performance



High-level asset allocation

GrIP	Actual	Benchmark	Relative
Growth	55.0%	58.0%	-3.0%
Income	26.8%	25.0%	1.8%
Protection	13.4%	15.0%	-1.6%
Cash	4.9%	2.0%	2.9%

Key points to note:

- The Fund has posted a negative return over the quarter, ending the period with a valuation of £1,310.1m, down from £1,335.8m at the end of Q4 2024.
- The Fund's passive global equity mandates were the main contributors to negative absolute returns over the quarter. UK government bonds also detracted, as rising gilt yields led to a fall in their value. In contrast, UK equities delivered positive returns during the period.
- On a relative basis the Fund underperformed its benchmark by 0.1%. The Fund is also behind its composite benchmark over the past 12 months and over 3 years.
- The cash held by the Fund decreased slightly over the period to £63.6m.
- Post the quarter end, the US President introduced tariffs on imports to the US. This led to material falls in equity valuations during April although markets have since largely recovered. An update on this is provided in a separate paper.

Asset allocation

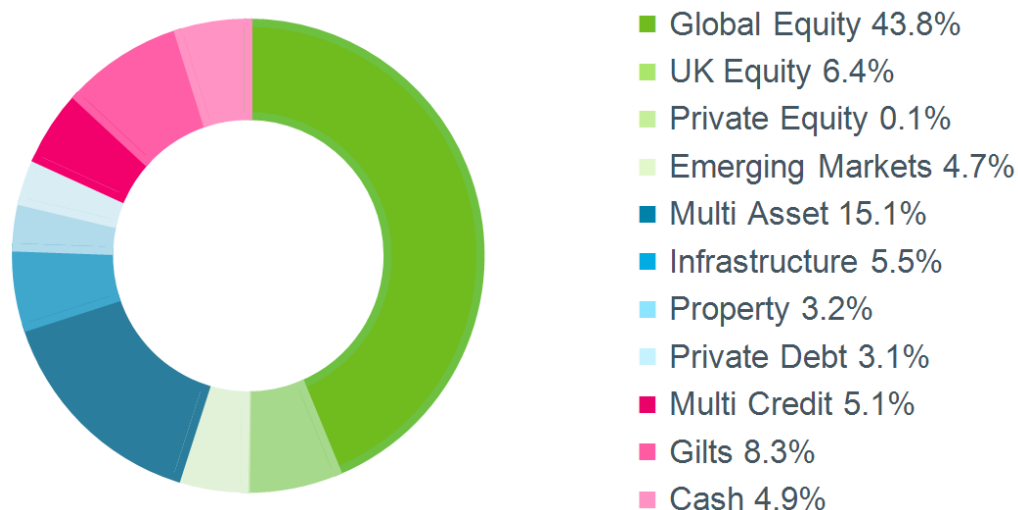
	Valuation (£m)		Actual Proportion	Benchmark	+ / -
	Q4 24	Q1 25			
LGIM Global Equity	563.3	536.9	41.0%	40.0%	1.0%
LGIM UK Equity	80.0	83.7	6.4%	5.0%	1.4%
Capital Dynamics Private Equity	9.3	1.5	0.1%	5.0%	-4.9%
LCIV JP Morgan Emerging Markets	62.4	61.4	4.7%	5.0%	-0.3%
Blackrock Acs World Low Crbn	39.0	36.5	2.8%	3.0%	-0.2%
Total Growth	754.0	720.0	55.0%	58.0%	-3.0%
LCIV Baillie Gifford Multi Asset	99.6	101.8	7.8%	6.0%	1.8%
LCIV Ruffer Multi Asset	92.4	96.0	7.3%	6.0%	1.3%
Alinda Infrastructure	17.2	15.9	1.2%	0.0%	1.2%
Capital Dynamics Infrastructure	2.1	2.1	0.2%	0.0%	0.2%
LCIV Infrastructure	54.2	54.2	4.1%	5.0%	-0.9%

Asset allocation

	Valuation (£m)		Actual Proportion	Benchmark	+ / -
	Q4 24	Q1 25			
Fidelity UK Real Estate	14.6	14.9	1.1%	1.5%	-0.4%
UBS Triton Property	11.2	11.3	0.9%	1.5%	-0.6%
LCIV UK Housing Fund	10.3	15.2	1.2%	0.0%	1.2%
LCIV Private Debt	40.2	40.2	3.1%	5.0%	-1.9%
Total Income	341.9	351.6	26.8%	25.0%	1.8%
LCIV CQS MAC	65.6	66.6	5.1%	5.0%	0.1%
BlackRock UK Gilts Over 15 yrs	109.2	108.3	8.3%	10.0%	-1.7%
Total Protection	174.9	175.0	13.4%	15.0%	-1.6%
Cash	65.0	63.6	4.9%	2.0%	2.9%
Total Scheme	1,335.8	1,310.1	100.0%	100.0%	

The target allocations were agreed in June 2023 as part of the last investment strategy review. The benchmark currently shown reflects the interim target allocation, representing the first step in the journey toward the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will gradually transition to comparing against the long-term target.

Asset class exposures*



Asset allocation commentary

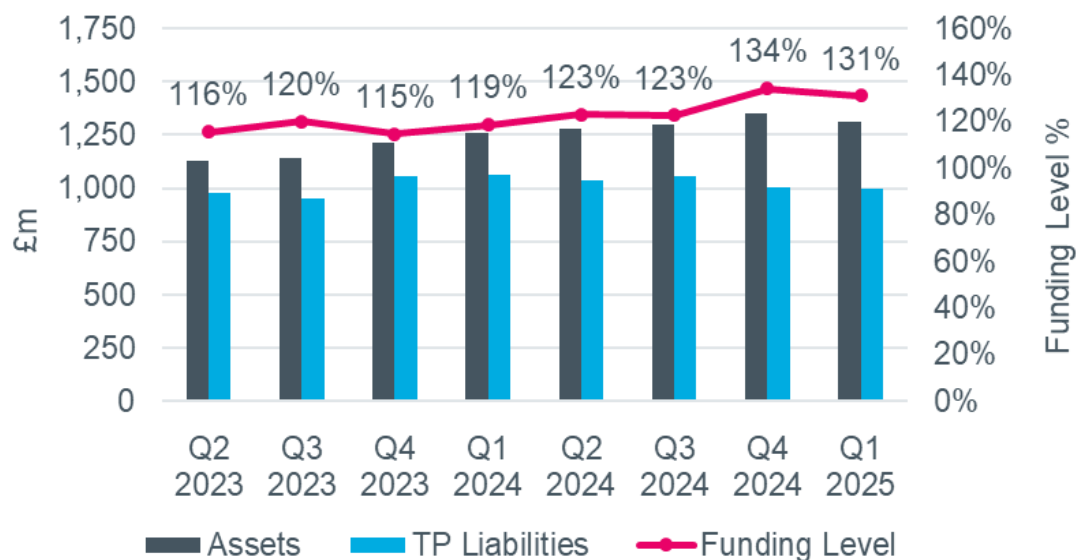
The Fund's current target allocations are as follows:

Interim Growth – 58%; Income/Diversifiers – 25%; Protection plus cash – 17%;

Long-term: Growth – 50%; Income/Diversifiers – 35%; Protection – 15%

- The majority of the Capital Dynamics private equity mandate has now been returned to the Fund as cash. During Q4, cash returned to the Fund totalled c£6.7m.
- The investment period for LCIV Private Debt fund I ended in March 2025. The fund is now expected to move into its distribution phase.
- To progress toward its 5% target allocation to private debt, the Fund committed £45 million in February 2025 to LCIV's Private Debt Fund II. This commitment will be gradually drawn down over the coming years as capital is called.

Fund level progression



Latest funding level summary

	30-Sep-24	31-Dec-24	31-Mar-25
Assets	1,298	1,347	1,310
Liabilities	1,059	1,005	1,000
Surplus/(deficit)	239	342	310
Funding Level	123%	134%	131%

Funding position commentary

As at 31 March 2025, we estimate the funding level to be 131%.

The fall in the funding level in Q1 2025 was mainly due to a decline in asset values driven by market movements.

Please note the asset value shown (for the funding level calculation) may differ from the actual asset value as it is an estimate based on estimated cashflows. However, the estimate is consistent with liabilities, therefore gives more reliable estimate of the funding position.

A formal actuarial valuation is being carried out as at 31 March 2025 and the results of that valuation may differ from the estimates shown above.

Manager performance

	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	+ / -	Fund	B'mark	+ / -	Fund	B'mark	+ / -
LGIM Global Equity	-4.7	-4.7	0.0	4.3	4.7	-0.4	8.4	8.6	-0.2
LGIM UK Equity	4.5	4.5	0.0	10.4	10.5	0.0	7.3	7.2	0.0
LCIV JP Morgan Emerging Markets	-1.6	-0.1	-1.4	1.6	5.8	-4.0	-0.3	2.1	-2.4
Blackrock Acs World Low Crbn	-6.5	-4.7	-1.9	4.4	4.8	-0.3	7.6	8.3	-0.7

Growth

LCIV Baillie Gifford Multi Asset	2.2	1.6	0.6	7.4	6.9	0.4	0.5	6.2	-5.3
LCIV Ruffer Multi Asset	3.2	1.6	1.6	2.9	6.9	-3.7	-0.7	6.2	-6.4
Alinda Infrastructure	-2.8	1.2	-3.9	15.2	4.6	10.1	18.6	7.2	10.6
Capital Dynamics Infrastructure	-3.0	1.2	-4.1	-15.3	4.6	-19.1	-3.1	7.2	-9.7
LCIV Infrastructure	0.8	1.2	-0.3	9.7	4.6	4.9	9.6	7.2	2.2

Manager performance

	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	+ / -	Fund	B'mark	+ / -	Fund	B'mark	+ / -
Fidelity UK Real Estate	1.9	1.5	0.3	12.0	6.4	5.3	-1.9	-3.2	1.3
UBS Triton Property	0.8	1.5	-0.7	3.8	6.4	-2.5	-	-	-
LCIV UK Housing Fund	0.0	1.5	-1.4	-	-	-	-	-	-
LCIV Private Debt	0.0	1.5	-1.4	3.0	6.0	-2.8	7.3	6.0	1.2
Income									
LCIV CQS MAC	1.6	1.6	-0.1	7.8	7.1	0.7	4.8	6.2	-1.3
BlackRock UK Gilts Over 15 yrs	-0.8	-0.9	0.1	-8.0	-8.2	0.1	-15.0	-14.9	0.0
Protection									
Total Scheme	-1.6	-1.4	-0.1	3.8	4.4	-0.5	4.0	4.6	-0.6

Note: Performance from Capital Dynamics' private equity allocation is not shown and has been excluded from the total performance calculations.

Manager performance commentary

The portfolio delivered a return of -1.6% over the first quarter of 2025 to 31 March, underperforming its benchmark by 0.2%. While performance over the past 12 months and 3-year periods remains strong on an absolute basis, returns continue to lag the benchmark over both timeframes.

After a period of strong gains, global equities posted negative returns in Q1 2025. UK equities were the only growth asset class to deliver a positive return during the quarter. In contrast, emerging market funds declined and underperformed their respective benchmark.

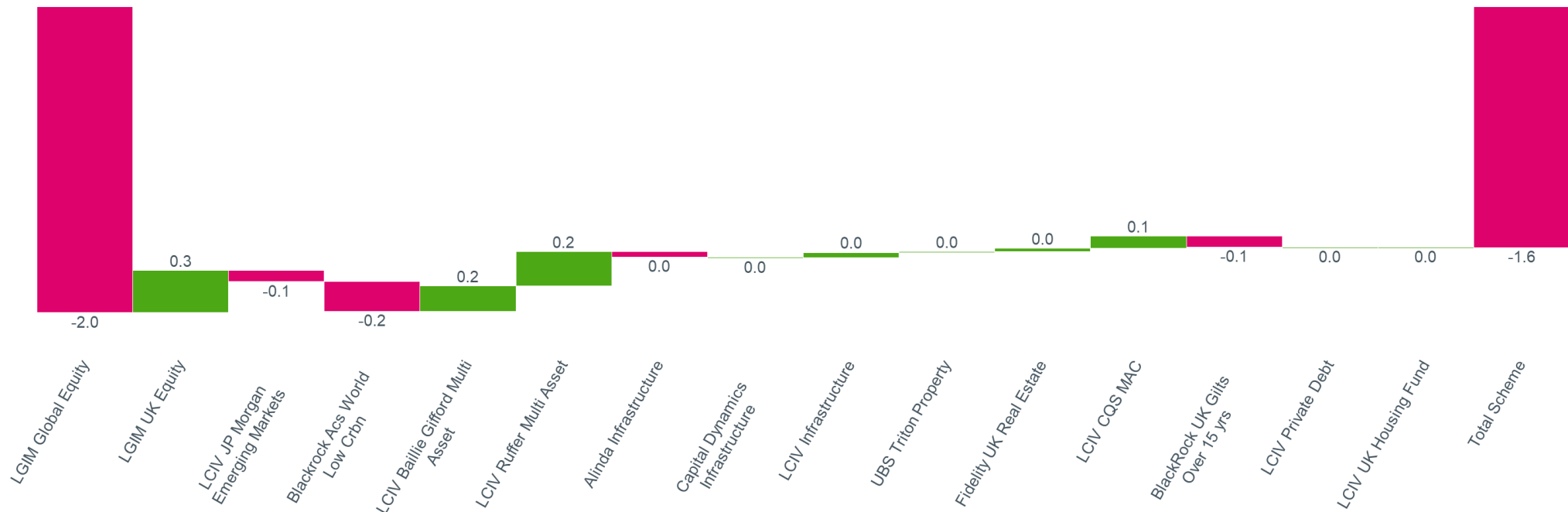
The decline in global equities was driven by renewed tariff-related uncertainty, which weighed on investor sentiment. Market participants rotated out of high-valuation US technology stocks in favour of lower-valued names, leading value stocks to outperform growth. US equities experienced their weakest quarterly performance since 2022, contributing significantly to the broader market decline.

The property and infrastructure markets delivered mixed performance over the period. Property allocations performed well on an absolute basis, while infrastructure performance was more varied. Capital Dynamics' infrastructure mandate posted negative returns; however, this allocation is in run down and represents a small portion of the Fund.

Credit markets continued to perform well resulting in positive performance from the LCIV MAC fund.

Over the period, the bond market saw a lot of volatility, resulting in gilt yields increasing over the period. This has resulted in the BlackRock gilts mandate falling in value, since gilt yields rose compared to end of Q4 levels.

Fund performance by manager



The chart above illustrates the contribution of each mandate to the Fund's absolute performance over the first quarter of 2025, based on their respective allocations.

Positive contributions came from the LGIM UK Equity fund, the LCIV Baillie Gifford and Ruffer Multi-Asset funds, as well as from the Infrastructure and Real Estate allocations.

The primary detractor was the LGIM Global Equity fund, which represents approximately 41% of the Fund's total assets. Although the Capital Dynamics Infrastructure Fund also posted negative returns, its allocation is less than 1% of the portfolio and, therefore, had a negligible impact on overall performance.

Current issues in LGPS – April 2025 edition

It feels like a waiting game now in the LGPS. A raft of consultations is due, on stage 1 of the Pensions Review and as MHCLG tackles its backlog. You might like to use the current 'spare time (!)' to focus on your 2025 valuation and consider how to manage various risks. And help is at hand to get your fund fully compliant with the McCloud remedy.

Carden Park – conference highlights

Another lively and popular LGC Investment Seminar was held in Cheshire last week, as LGPS stakeholders met to discuss a host of topical issues. You can catch up on the highlights [here](#). As we enter the 2025 valuation year, our own Rob Bilton had a sneak peek at the challenges of managing the upsides and the downsides.

Funding positions will be higher, but regret may be felt later if employer contribution rates are lowered too quickly. The prudence margin will be a key lever for funds to agree.

Spring Statement 2025

Despite some 'pre-match' speculation, the Chancellor's [statement](#) on 26 March was a damp squib from a LGPS perspective. There was just a passing mention about pension reform. The response from the Pensions Minister to a [Parliamentary question](#) on 25 March said that the Government's response to the 'Fit for the future' consultation would be provided in Spring 2025, with the second phase of the pensions review (covering adequacy of benefits) following 'in due course'.

New Scottish exit credit regime

From 2 April 2025, new [Scottish amendment regulations](#) mean that Scottish LGPS funds must now exercise their discretion to determine the amount of exit credit due to be paid to any employers that leave with a surplus. The new regulations are almost a mirror image of those that have been in place in England and Wales since 2020. This [60 second summary](#) tells you everything you need to know about these new regulations and suggests some next steps. Please speak to your fund actuary if you need any implementation support.

2025 valuations have sprung

Signs of spring can only mean one thing...the 2025 valuation has arrived! Over the coming year, we will be working hard alongside officers to make the 2025 triennial valuations a huge success for all English & Welsh funds. Keep your eyes and ears open for further information and support over the coming weeks including the launch of our exciting new Valuation Hub. Please get in touch with your usual Hymans contacts with any questions in the meantime.

Current issues in LGPS – April 2025 edition

Intervaluation contribution rate reviews

MHCLG recently wrote to administering authorities in England & Wales to reiterate that funding level improvements, due to favourable changes in market conditions, should not trigger intervaluation contribution rate reviews. As a reminder, new 'employer flexibility' regulations in 2020 allowed the review of employer contributions between valuations under very limited circumstances. This was supported by MHCLG [statutory guidance](#), SAB [non-statutory guidance](#) and a further [statement](#) providing advice on managing surpluses. The letter concludes by saying that MHCLG intends to consult on changes that will align the regulations in this subject. We recommend that funds continue to engage with employers seeking a review and consider any requests in line with the available guidance and the Fund's own FSS.

Tailored employer investment strategies

The funding environment for this year's LGPS valuations offers funds an opportunity to consider all the tools available to meet employer needs. Many funds are recognising the differing funding profiles and risk appetites of employers by operating a variety of investment strategies. For example, the objectives of a large local authority can be very different to those of a small charity that's, say, looking to manage an exit from the LGPS. Discussing options early in the valuation year with your actuary and investment consultant can allow time to align funding and investment strategies at employer level ahead of your FSS consultation in the autumn/winter.

Caution: check your HEAT

We're on the home straight with final data arriving for the year to 31 March 2025. Once employer cashflows are confirmed through the Hymans Employer Asset Tracking (HEAT) system we use them for, well, everything: accounting, triennial valuations, new or ceasing employers, or cross-checking member data. With our monthly verification of cashflows, there is little risk of surprises in this final quarter. Checking for consistency from month to month and reconciling one-off items like exit payments provides reassurance that all employers have an accurate and current asset position. Contact your actuary for more information about how HEAT frees up officer resource throughout the year.

March-ing onto the next accounting exercise

As we pass the 31 March 2025 accounting year end, market conditions continue to be favourable. This means that more LGPS employers than ever before are likely to be in a net asset (surplus) position. Auditors now typically expect asset ceiling calculations to be carried out, to help employers understand how much (if any) of their surplus can be disclosed on their year-end balance sheets. To find out more about asset ceiling calculations, reach out to our accounting specialists at LGPSCentralAccountingTeam@hymans.co.uk

Current issues in LGPS – April 2025 edition

Checking your RI health

Welcome to our new Responsible Investment (RI) Health Check tool! We collect initial data via an online questionnaire and use it to evaluate how well ESG/RI is integrated into your fund across four broad areas of the investment process: 1. Governance and education, 2. Policy and strategy, 3. Implementation and ownership, and 4. Monitoring and reporting. In addition, the interactive tool provides a holistic view of two key thematic areas (Climate and Stewardship). The results and recommended actions can help with stakeholder engagement and support further RI integration. Our [article](#) provides further detail.

Spotlight #1 - longevity:

Tackling metabolic health

As well as providing pension funds with longevity analysis, Club Vita regularly host webinars to explore emerging trends in longevity risk. In their latest webinar, the panellists take a deep dive into metabolic health. The rise in sedentary lifestyles, obesity and poor metabolic health could be the largest obstacle for increasing future longevity for LGPS pensioners. The panellists explore the role that weight loss drugs can play in tackling this problem and the importance of lifestyle changes, especially nutrition. If you missed the episode, you can catch up [here](#).

Life expectancy changes - UK population vs LGPS

The Office for National Statistics (ONS) has updated its [national life tables](#). Tables are published annually and set out [period life expectancy](#) by age and sex for the UK. Whilst life expectancy estimates for 2021 to 2023 are still below the pre-pandemic level for both males and females in the UK, [analysis from Club Vita](#) suggests that members of LGPS funds have been somewhat insulated from some of the health effects we've observed in the wider UK population. Further information can be found in the [LGPS Life Expectancy Index](#), where Club Vita have worked with the English & Welsh LGPS Scheme Advisory Board to communicate the evolution of life expectancy amongst LGPS pensioners in a simple and informative way.

Spotlight #2 – McCloud remedy

Determination deadline

Before the end of August 2025, funds must consider if they wish to make a determination to extend the McCloud implementation phase for any of their members. It's a key decision and we have recently published a [blog](#) setting out the main things LGPS funds need to be thinking about before this deadline.

Manager benchmarks and performance targets

Mandate	Date appointed	Benchmark description
LGIM Global Equity	31/10/2010	FTSE AW Dev World ex UK Index
LGIM UK Equity	12/06/2012	FTSE All Share Index
LCIV JP Morgan Emerging Markets	30/11/2018	MSCI Emerging Market Index
Blackrock Acs World Low Crbn	03/09/2021	MSCI World
Capital Dynamics Private Equity	31/12/2003	MSCI All World +1% p.a
LCIV Baillie Gifford Multi Asset	31/05/2012	BOE Base Rate + 2%p.a
LCIV Ruffer Multi Asset	15/03/2017	BOE Base Rate + 2%p.a
Alinda Infrastructure	31/08/2009	UK CPI + 2%
Capital Dynamics Infrastructure	31/10/2012	UK CPI + 2%
LCIV Infrastructure	31/10/2012	UK CPI + 2%
LCIV Private Debt	22/06/2021	Absolute BM 6%
LCIV UK Housing Fund	31/03/2024	Absolute BM 6%
Fidelity UK Real Estate	22/12/2021	MSCI/AREF UK All Balanced Property
UBS Triton Property	31/08/2022	MSCI/AREF UK All Balanced Property
LCIV CQS MAC	30/11/2018	SONIA + 2%
BlackRock UK Gilts Over 15 yrs	05/03/2019	FTSE UK Gilts Over 15 yrs

Glossary - equity manager styles

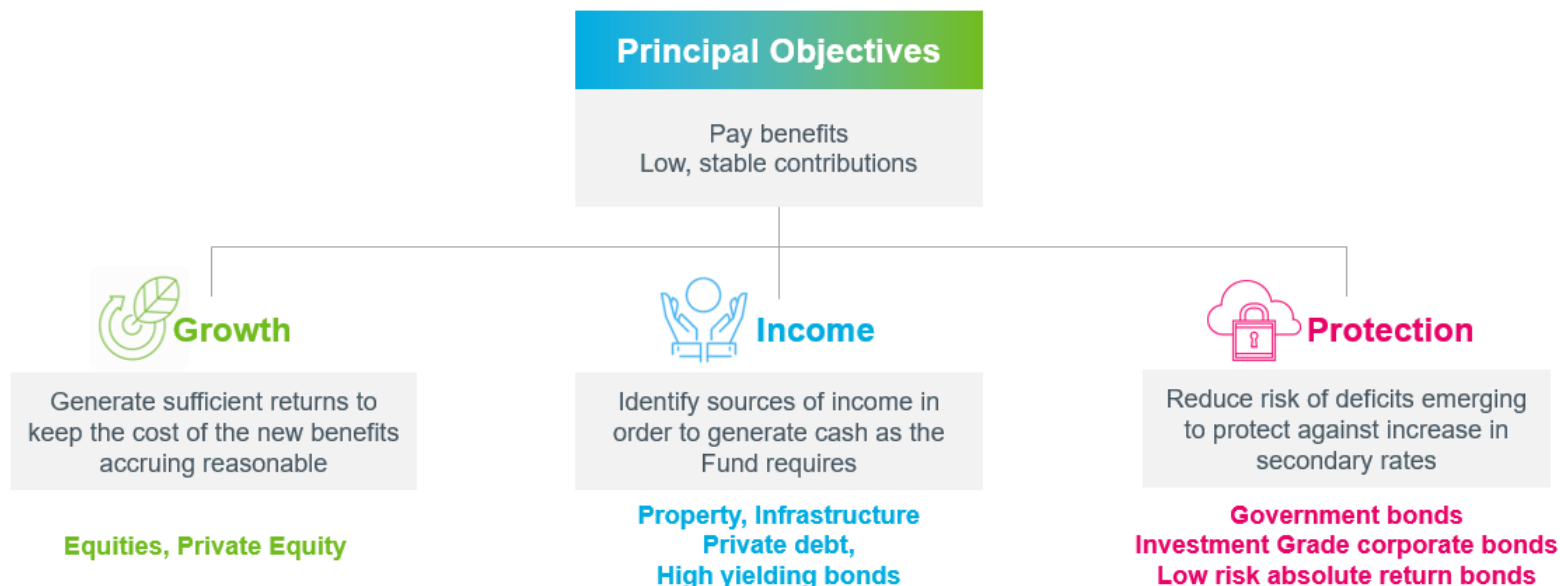
‘Style’ refers to the type of stocks a manager will typically research and select for portfolios. It is important to diversify these ‘styles’ in order to manage concentration risks.

- **Value** – this style tilt considers whether stocks held within the portfolio are discounted relative to their fundamentals, i.e. whether stocks have low market valuations versus current earnings or book value.
- **Growth** – this style tilt considers companies earning potential relative to its industry and the overall market. The key consideration within this factor is a company’s potential for growth and therefore commonly used metrics include historical earnings growth and forward earnings growth.
- **Quality** – this style tilt considers companies financial stability. A company’s quality can be evaluated using various metrics including: profitability, earnings quality, financial leverage and corporate governance.
- **Volatility** – this style tilt considers the systematic risk of the portfolio relative to the market.
- **Momentum** – this style tilt is based on the premise that stocks that have recently risen or fallen in price will continue to do so in the future.
- **Low volatility** – A low volatility equity manager will aim to construct a portfolio that exhibits significantly lower volatility than the benchmark index (low volatility is a relative, not absolute, term). A low volatility manager will generally target a volatility of around 15% p.a. versus a benchmark that exhibits a 20% p.a. volatility. A low volatility portfolio will generally be constructed through a quantitative assessment of past stock performance and correlation to select stocks that have historically exhibited low levels of volatility.
- **Neutral** - A neutral manager will aim to construct portfolios that have no significant sector or style biases relative to the benchmark index. This is more common in bottom up, in-depth research, managers (sometimes referred to as ‘stock pickers’) who aim to isolate stocks that are undervalued relative to their peers whilst avoiding taking a position on whether a country or industry itself will out or underperform. For example they might take an overweight position in BP if they believe the stock is fundamentally undervalued but remove their exposure to the more general oil market by compensating with an underweight **position in Shell**.

Glossary

- **Buy-out** – purchase of a more mature company usually as part of a private equity deal.
- **Capital structure** – how a company is financed through equity and debt.
- **Closed-ended** - When an investment fund has a finite lifecycle, money is invested and returned in full to the investor over a defined period (usually 5 – 8 years for private debt)
- **Commitment** – The investment amount initially made to a fund, this is then drawn by the manager over time and invested.
- **Dividend** – Annual income paid through holding an equity.
- **Duration** – A measure of the average expected life of an investment that indicates sensitivity to interest rate changes.
- **Indirect – Access and asset via other funds rather than directly.**
- **Information ratio** - This measures the risk-adjusted returns of a fund relative to its respective benchmarks. For active funds, a higher information ratio is better.
- **IRR** - a measure of performance taking into account cashflow.
- **Liquidity** – ability to sell a stock quickly at a known price.
- **MAC** – Multi Asset Credit, an investment fund made up of a mix of different types of debt/credit.
- **Mid-market** – focus on mid-sized companies.
- **Open (closed) ended investment** – Open ended investments have no end date and can be traded. Closed ended cannot usually be traded and have a finite life.
- **Senior secured** - Debt issued at a high level in a company's capital structure secured against company assets.
- **Sub-investment grade** – bond assets rated below investment grade (and therefore higher risk).
- **Tracking error** – This shows the difference in actual performance between a fund and its respective benchmark. This should be lower for passive funds tracking an index compared to active funds where the manager is trying to outperform a benchmark.
- **TVPI** - Total value (distributions plus residual values) divided by paid-in capital. An alternative measure of the return on investment for closed-end funds
- **Volatility** – a measure or risk based on 'ups and downs' of stock/portfolio over a period of time.

Growth, Income and Protection



Geometric vs arithmetic performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases

Risk warning

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