	Pension Fund Sub-Committee 7 October 2013 **Report from the Deputy Director of Finance**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 June 2013. It examines the actions taken, 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 has fallen in value by £3.0m from £543.8m to £540.8m during the quarter ended 30 June 2013, and the Fund's return of -0.7% underperformed its quarterly benchmark of 0.4%. The poor performance can be attributed to results in Emerging Market Equities, UK Equities, Fixed Income and Diversified Growth.

b) The drop in the Fund's overall value during the quarter disguises positive returns in the asset classes of Hedge Funds, Property, Private Equity, Infrastructure and Overseas Equities.

c) The poor performance for the quarter ended 30 June 2013 has been more than offset during the months of July and August 2013, where the Fund has increased in value by an estimated £5.9m to £546.7m.

d) It should be noted that the Fund's quarterly return of -0.7% was better than the WM Local Authority average due to Brent's asset allocation with its relatively low exposure to Equities which had an overall negative quarter and high exposure to Alternatives which benefited from a positive performance, placing the Brent Pension Fund at the 44th percentile for the quarter ended 30 June 2013.

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 June 2013

3.1 During the quarter ended 30 June 2013, the prospect of less quantitative easing (QE) has seen bond markets sell off and other asset classes have also suffered, notably commodities and most emerging market investments. The market reaction to the prospect of a gradual withdrawal of QE in the US as a result of improving economic indicators has been severe.

3.2 A market review for the quarter ended 30 June 2013 which should be read in conjunction with a market update for July and August 2013, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.3 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 June 2012	Period ended 30 June 2013
1 year	90th	88th
3 years	100th	100th
5 years	100th	100th

3.4 The comparative statistics show that the Fund has been one of the lower performing LGPS funds which has been consistently underperforming for a number of years.

3.5 However, the Brent Pension Fund has benefited from an improvement in investment returns during the periods ended 30 June 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 90th to 88th percentile. Whilst this progress is encouraging it is nonetheless quite limited and efforts will be made to build on this improved performance to ensure that it continues over the coming period, and this is reflected in the latest quarter ended 30 June 2013 which places the Brent Pension Fund at the 44th percentile.

Table 1: Asset allocation as at 30 June 2013 compared to the benchmark

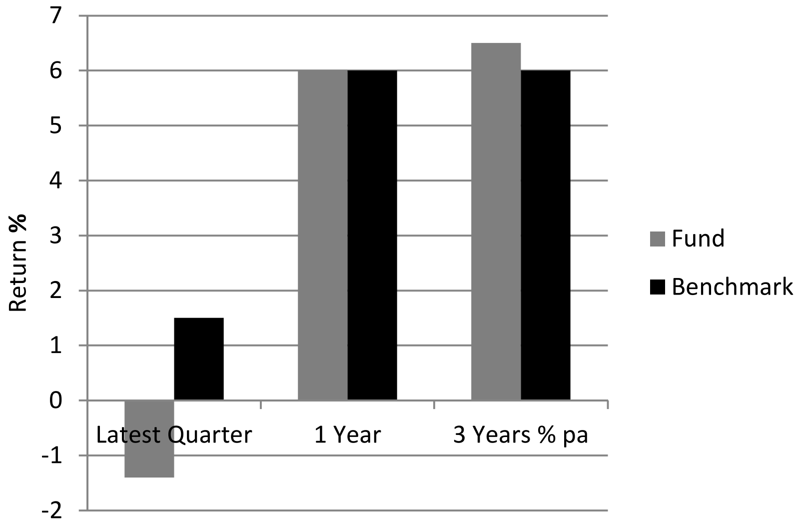
Market (1)	Market Value 30/6/13 £M (2)	Market Value 30/6/13 % (3)	WM LA Average 30/6/13 % (4)	Fund Benchmark 30/6/13 % (5)	Market Value 31/3/13 £M (6)	Market Value 31/3/13 % (7)	WM LA Average 31/3/13 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	81.8	15.1	17.0	15.0	82.9	15.3	17.6
Equities							
UK – Legal & General	76.9	14.2	26.5	13.0	78.0	14.3	24.4
UK - Smaller Companies Fund Henderson	21.4	4.0	*	4.0	21.4	3.9	*
O/seas – developed Legal & General	126.2	23.3	33.0	22.0	124.8	23.0	32.9
O/seas – emerging Dimensional	33.0	6.1	6.0	8.0	36.9	6.8	5.7
Property							
Aviva	33.6	6.2	6.6	8.0	33.3	6.1	6.8
Private Equity							
Capital Dynamics	70.0	12.9	3.8	10.0	68.4	12.6	4.1
Yorkshire Fund	1.1	0.2	*		1.1	0.2	*
Hedge Funds							
Fauchier	27.9	5.2	1.7	5.0	27.2	5.0	2.3
Infrastructure							
Alinda	16.6	3.1	0.7	6.0	16.6	3.1	1.0
Capital Dynamics	15.3	2.8	*		12.8	2.3	*
Henderson PFI Fund II	0.9	0.2	*		0.9	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	33.0	6.1	1.5	8.0	34.0	6.2	2.0
Cash	3.1	0.6	3.2	1.0	5.5	1.0	3.2
Total	**540.8**	**100.0**	**100.0**	**100.0**	**543.8**	**100.0**	**100.0**

3.6 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.

Manager performance relative to benchmark

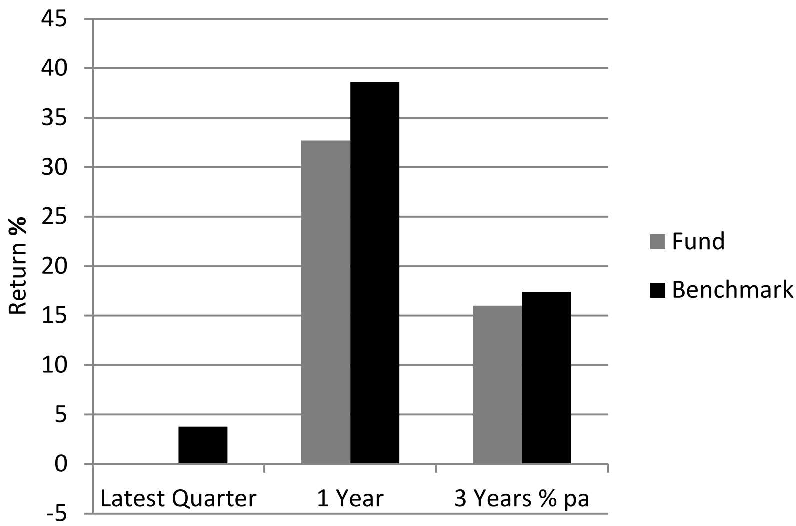
3.7 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of June 2013.

Henderson – Total Return Bond Fund



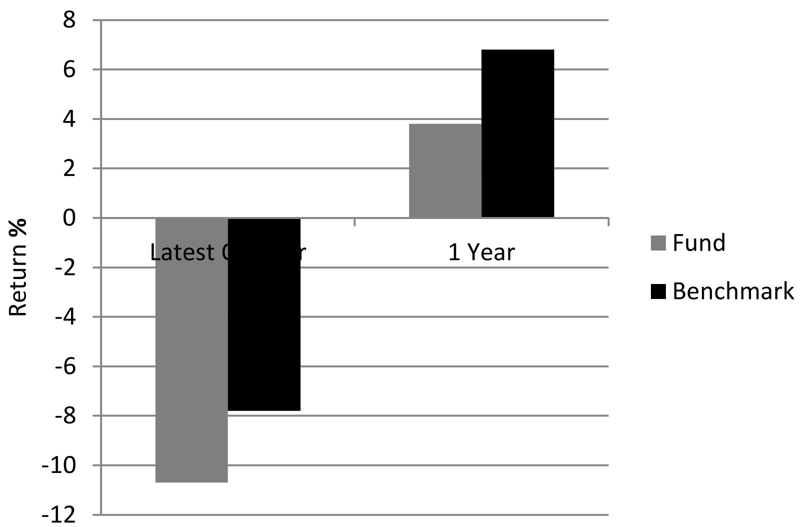
Even though the latest quarter has been negative, the Henderson Total Return Bond Fund has delivered a performance which is consistent with its 6% p.a. absolute return benchmark over 1 Year and shows a marginal outperformance over 3 Years.

Henderson – UK & Irish Smaller Companies Fund



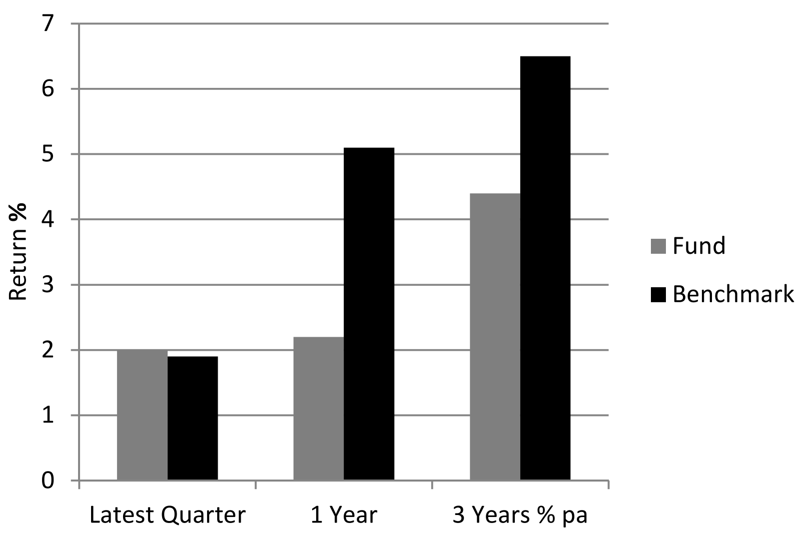
Henderson's UK & Irish Smaller Companies Fund has delivered a strongly positive return over 1 Year and 3 Years. However, the Fund has underperformed against its benchmark FTSE SmallCap Index. The benchmark has changed significantly over time. In particular, there has been a significant reduction in the number of companies and an increased concentration within the benchmark which has increasingly called into question the relevance of the FTSE SmallCap Index as a measure of the UK small cap investment universe. This is something Henderson are currently in the process of reviewing.

Dimensional – Emerging Markets Value Fund



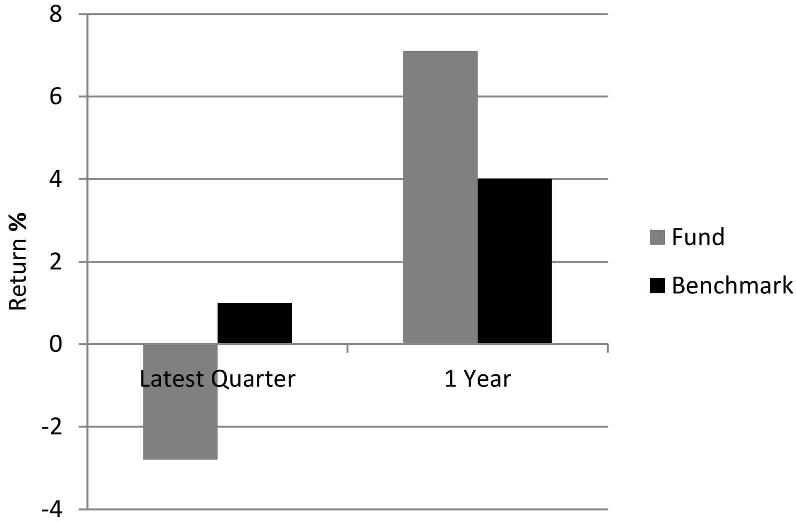
Dimensional's Emerging Markets Value Fund has delivered a disappointing investment return in both absolute terms and relative to its benchmark MSCI Emerging Markets Index. Even though Dimensional are one of the Fund's more recently appointed fund managers with an investment start date of July 2011, their performance will be closely scrutinised over the coming period.

Aviva – Property



Aviva's property portfolio has shown an encouraging pick-up in performance during the latest quarter, whilst lagging behind its IPD All Properties Index based benchmark over 1 Year and 3 Years.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) significantly outperformed its benchmark Base Rate plus 3.5% p.a. over 1 Year, despite including a difficult latest quarter which saw negative returns on most asset classes and notably due to the allocations to gold and emerging market bonds. The Baillie Gifford DGF is the Fund's newest investment acquisition since June 2012.

3.8 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 June 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/6/13			Year Ended 30/6/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	-1.4	1.5	-3.9	6.0	6.0	4.0	Absolute return 6% p.a.
Equities							
UK – Legal & General	-1.6	-1.7	-0.6	18.1	17.9	20.6	FTSE All Share
UK - Small Companies Henderson	-0.1	3.8	n/a	32.7	38.6	n/a	FTSE Small Cap
O/seas – developed Legal & General	1.1	1.1	-0.4	23.8	23.9	24.9	FTSE Dev World ex UK
O/seas – emerging Dimensional	-10.7	-7.8	-7.5	3.8	6.8	12.1	MSCI Emerging Markets
Property							
Aviva	2.0	1.9	2.1	2.2	5.1	4.5	IPD All Properties Index
Private Equity							
Capital Dynamics	1.5	2.0	2.8	5.9	8.0	12.6	Absolute return 8% p.a.
Yorkshire Fund Managers	-1.0	2.0	*	5.9	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	2.6	1.4	0.2	11.8	5.6	8.1	LIBOR + 5% p.a.
Infrastructure							
Alinda	-0.5	2.0	-2.0	5.1	8.0	5.7	Absolute return 8% p.a.
Capital Dynamics	1.5	2.0	*	5.9	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	8.7	2.0	*	-1.8	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	-2.8	1.0	-1.5	7.1	4.0	9.5	Base Rate + 3.5% p.a.
Cash	0.1	0.1	0.5	0.5	0.5	2.7	Base Rate
Total	**-0.7**	**0.4**	**-0.7**	**12.7**	**12.7**	**15.1**	

3.9 The Fund's overall return of -0.7% underperformed its quarterly benchmark of 0.4%. Whilst Fund of Hedge Funds and Property outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Private Equity, Infrastructure, Diversified Growth and Emerging Market Equities underperformed against their benchmarks.

3.10 The Fund outperformed the WM Local Authority average in the asset class of Fixed Income, Overseas Equities, Hedge Funds and Infrastructure. The Fund underperformed the WM Local Authority average in the asset classes of Emerging Market Equities, Diversified Growth, Private Equity and UK Equities.

3.11 Over one year, the Fund return of 12.7% was identical to its benchmark. Whilst Hedge Funds and Diversified Growth outperformed their respective benchmarks, UK Smaller Companies, Private Equity, Infrastructure, Property and Emerging Market Equities underperformed against their benchmarks. However, the Brent Fund's return of 12.7% has underperformed when compared to the WM Local Authority average fund return of 15.1%, mainly due to the strongly positive performance of publicly quoted UK and Overseas Equities for which Brent has a lower proportionate exposure, given its relatively higher investment in Alternative Assets.

Compliance with statutory investment limits

3.12 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 June 2013	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	23%	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

Indicative performance of the Fund since June 2013

3.13 Following the quarter ended 30 June 2013, the Fund has increased in value by an estimated £5.9m:

	As at 31 August 2013 £M	As at 30 June 2013 £M	Movement
Fixed Income			
Henderson	82.1	81.8	↑
Equities			
UK - Legal & General	80.1	76.9	↑
UK - Small Companies Henderson	23.2	21.4	↑
O/seas – developed Legal & General	127.1	126.2	↑
O/seas – emerging markets Dimensional	32.5	33.0	↓
Property			
Aviva	33.6	33.6	=
Private Equity			
Capital Dynamics	69.7	70.0	↓
Yorkshire Fund Managers	1.1	1.1	=
Hedge Funds			
Fauchier	28.3	27.9	↑
Infrastructure			
Alinda	17.8	16.6	↑
Capital Dynamics	15.3	15.3	=
Henderson PFI Fund II	0.9	0.9	=
Pooled Multi Asset			
Baillie Gifford DGF	33.1	33.0	↑
Cash	1.9	3.1	↓
Total	**546.7**	**540.8**	↑

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

Henderson Investors – June 2013 quarter report
Legal & General – June 2013 quarter report
Fauchier Partners – June 2013 quarter report
Dimensional Asset Management – June 2013 quarter report

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472 at Brent Town Hall.

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Deputy Director of Finance

ANTHONY DODRIDGE
Head of Exchequer and Investment

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q2 2013

22 July 2013

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BRENT COUNCIL PENSION FUND
Quarterly Review, April – June 2013

The Economy

1. The UK reported growth of +0.3% in the first quarter – better than many had predicted – and estimates for the full year have been increased slightly. In the US, the monthly jobs data has beaten expectations in each month since April, and the Federal Reserve has raised its estimates of GDP growth to 2.45% this year and 3.25% in 2014, which are better than consensus estimates (see table below). Japan also saw a stronger economy than expected in Q1, but the Eurozone remains becalmed, and China looks to be achieving slower growth than in recent years.

   (In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in April).

Consensus real growth (%)						Consumer prices latest (%)
	2010	2011	2012	2013E	2014E	
UK	+1.6	+0.9	-0.1	+1.0 (+0.7)	+1.6 (+1.5)	+2.7 (CPI)
USA	+2.9	+1.7	+2.2	+1.9 (+2.1)	+2.8 (+2.7)	+1.5
Eurozone	+1.7	+1.5	-0.5	-0.6 (-0.5)	+0.8 (+0.9)	+1.5
Japan	+4.2	-0.7	+1.9	+1.8 (+1.3)	+1.6 (+1.3)	+0.1
China	+10.3	+9.2	+7.8	+7.5 (+8.5)	N/A	+2.7

[Source: The Economist, 06.07.13]

2. Early in May, the European Central Bank cut its base rate from 0.75% to 0.5%, and indicated in July that it expects to maintain this rate for the foreseeable future. The Bank of England kept its base rate at 0.5%, and in early July the new Governor, Mark Carney, said that the market's forecasts that the rate would be increased before 2015 were misplaced. This caused a fall in sterling relative to the dollar.

3. The statements from the Federal Reserve Bank have had the greatest impact on Equity and Bond markets, however. On May 22nd, their minutes showed that several members of the committee were envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economy continued its recovery. While not new, this reminded markets that the buoyancy of markets had been due partly to the massive injections of liquidity from central banks. Equity and bond markets both fell quite sharply on this news. In late June the Fed was more explicit about its intentions, saying that it expected to slow its rate of monthly purchases by the end of 2013, and cease completely by mid-2014 if the US economy grew as expected. This caused a further setback in equity and – more particularly – bond markets.

4. News from China has also affected sentiment in markets, most notably in the Pacific and Emerging markets. A weak Manufacturing Purchasing Managers Index reading in May coincided with the Fed's first statement on QE in May, and the June reading was also disappointing. Finally, late in June interbank rates in China rose very sharply as there appeared to be signs of a credit crisis in the banking system. It was only a few days later that the Chinese central bank stepped in to normalise the situation.

5. In Japan, Prime Minister Abe launched the third of his economic 'arrows', this one dealing with structural reform. Observers were unimpressed by the lack of detail in the announcement, and deduced that he may be playing down the scale of his plans until after the Upper House elections have taken place in July.

Markets

6. **Equities** had advanced steadily during April and May – with several indices reaching their highest levels since 2008 – but the May 22nd news from the Federal Reserve (see para 3) caused a sharp setback everywhere. Most notably, the Japanese equity market fell by 7% the following day, on fears that rising bond yields would inflict heavy losses on the portfolios of regional banks. By the end of June, and after the second statement from the Federal Reserve, most equity markets had surrendered their earlier gains and registered slight losses for the quarter. (See table below).

	Capital return (in £, %) to 30.06.13		
Weight %	**Region**	**3 months**	**12 months**
100.0	**FTSE All-World Index**	**-1.0**	**+18.1**
51.5	FTSE All-World North America	+1.7	+20.8
8.8	FTSE All-World Japan	+4.2	+23.5
12.1	FTSE All-World Asia Pacific ex Japan	-8.4	+9.9
16.3	FTSE All-World Europe (ex-UK)	-1.9	+22.4
7.8	FTSE All-World UK	-4.0	+12.1
9.7	FTSE All-World Emerging Markets	-8.8	+3.9

[Source: FTSE All-World Review, June 2013]

7. Emerging Markets continued to be the weakest region for equities. In part this was caused by the weakness of the Japanese yen, which threatened the competitiveness of exports from, for example, South Korea. The slowdown in China's economy led to a fall in commodity prices, which in turn affected the profitability of commodity producers in the Emerging Markets. The street protests in Turkey and Brazil in June, followed by the ousting of the Egyptian President in July, reminded investors of the political risks involved in Emerging Markets.

8. Looking at the performance of the different industry groups during the quarter, the weakness of commodity prices inevitably dragged down the Basic Materials sector, which is by far the worst performer over the past 12 months also. The strong rise in the Technology sector during the quarter was driven by the 18% gain from the Software & Computer Services sub-group.

Capital return (in £, %) to 30.06.13		
Industry Group	**3 months**	**12 months**
Health Care	+2.4	+28.5
Financials	-0.6	+27.1
Consumer Services	+1.8	+26.8
Industrials	-0.6	+21.2
Consumer Goods	-0.3	+21.1
FTSE All-World	**-1.0**	**+18.1**
Technology	+7.9	+10.5
Telecommunications	+1.2	+9.9
Utilities	-2.3	+3.9
Oil & Gas	-4.1	+8.4
Basic Materials	-10.8	-4.4

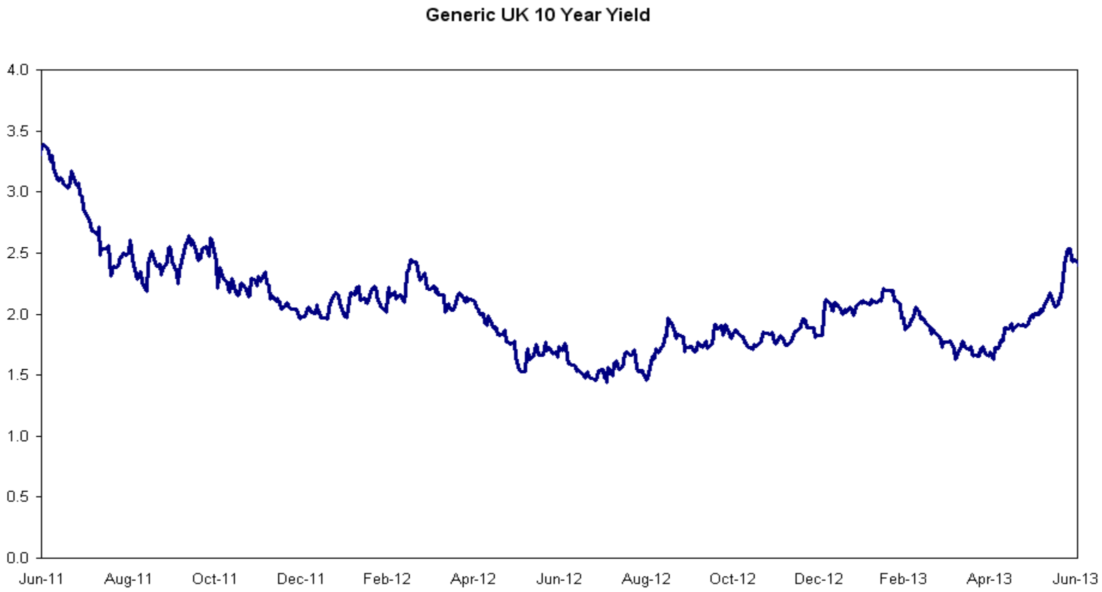
[Source: FTSE All-World Review, June 2013]

9. **Bond markets** fell heavily after the May 22nd Fed announcement, and yields continued to rise for the rest of the quarter. This effect was even more pronounced in the corporate and high-yield bond markets, which had previously been driven to extremely high levels as investors searched for yield. Worries about the peripheral Eurozone bond markets resurfaced when the Portuguese Finance Minister resigned his post after disagreements about the depth of the austerity programme.

10. The table below shows that 10-year government bond yields in US, UK and Germany rose by 44 – 64 basis points during the quarter. A rise of 0.5% in the yield on a 10-year bond results in a fall of about 4% in its price.

10-year government bond yields (%)					
	Dec 10	**Dec 11**	**Dec 12**	**Mar 13**	**Jun 13**
US	3.34	1.88	1.76	1.85	2.49
UK	3.39	1.98	1.85	1.78	2.45
Germany	2.92	1.83	1.32	1.29	1.73
Japan	1.12	0.98	0.79	0.57	0.86

[Source: Financial Times



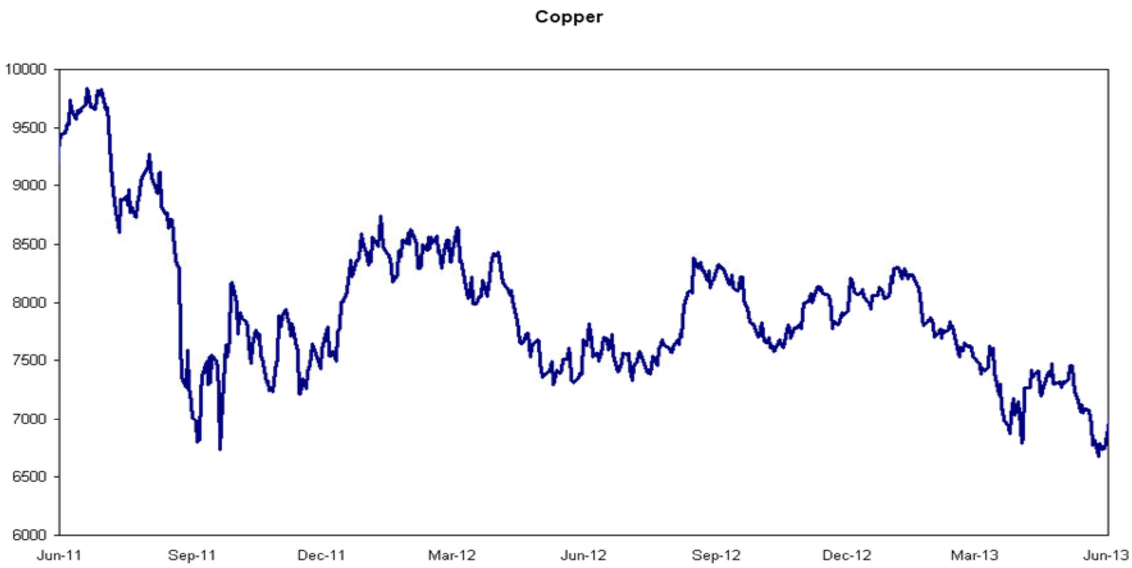
Currencies

11. The yen continued to weaken against the dollar, crossing the psychologically significant level of 100 per $ in May, and ending the quarter close to this level after fluctuating in the range 95-104 per $. Emerging Market currencies began to weaken on the fall in commodity prices, notably Brazil (-17%), Chile (-14%) and Mexico (-11%) relative to the dollar.

	31.03.13	**30.06.13**	**£ move**
$ per £	1.518	1.517	unch
€ per £	1.182	1.167	- 1.3%
Yen per £ (see graph overleaf)	142.8	150.7	+ 5.5%

Commodities

12. The **gold** price fell 25%, from $1600 to $1200 per oz, during the quarter. The decline was sparked initially by the Federal Reserve's May statement about the likely tapering of QE, as investors saw less need to hold an inflation hedge in the form of gold. The sell-off gathered pace during June, with heavy selling of Exchange Traded Funds (ETFs) used by private investors as a play on the gold price. **Copper** also fell to a 3-year low, on prospects for reduced demand from China. In the **oil** market, the price of Brent Crude fell by some 7% during the quarter.



Property

13. The sluggishness of UK Commercial Property values is shown in the IPD Monthly Index data to end-June. The total return (including rental income) for the 12 months averaged just 4.1%. By sector the total returns were:

Offices	+6.0%
Industrial	+5.4%
Retail	+2.4%

Outlook

14. In July equity markets have recovered most of the ground they had lost since the Federal Reserve's first statement on tapering Quantitative Easing on May 22nd. Government bond markets have also stabilised at yields some 0.7% above their lowest levels. Now that investors have become used to the idea that QE by the US will end during 2014, their focus has turned to the outlook for Chinese economic growth. If this can hold above 7.5% this year and next, many of the worst fears for commodities and Emerging Markets will have been allayed. Assuming China maintains this level of growth, I expect equities to trade in their recent range for the remainder of 2013. Bond yields, meanwhile, could move higher if growth in the US brings QE to an earlier end than currently envisaged.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers
22nd July 2013

AllenbridgeEpic
investment advisers

MARKET UPDATE PREPARED FOR

Brent Council Pension Fund

July and August 2013

9 September 2013

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Report from the Investment Adviser
Update for July and August 2013

This report should be read in conjunction with the Quarterly Review, dated July 22nd, which was circulated to Committee members in July, and is appended to this report. The tables in this report show market movements during the two-month period from end-June to end-August, and link this to the earlier quarterly data, to show movements from end-March to end-August.

Equity markets recorded gains of up to 5% in July, but most of this was lost in August, with the result that Global Equities ended the 2-month period unchanged. As shown in the following table, UK and European Equities gained more than 3%, while Japan lost a similar amount, and Emerging Markets continued to lag all other regions.

	Capital return (in £, %) to 31.08.13		
Weight %	**Region**	**2 months**	**5 months**
100.0	**FTSE All-World Index**	**+0.3**	**-0.7**
50.9	FTSE All-World North America	+0.1	+1.8
8.4	FTSE All-World Japan	-3.2	+0.9
12.5	FTSE All-World Asia Pacific ex Japan	-1.4	-9.7
16.6	FTSE All-World Europe (ex-UK)	+ 3.3	+1.3
8.0	FTSE All-World UK	+3.3	-0.8
10.1	FTSE All-World Emerging Markets	-4.7	-13.1

[Source: FTSE All-World Review, August 2013]

Emerging Markets have continued the weakness described in paragraph 7 of the Quarterly Review, with the additional burden of investment flows out of the markets in anticipation of the slowdown of Quantitative Easing (QE) by the Federal Reserve. This has also caused further falls in Emerging Market currencies relative to the dollar – notably the Indian rupee.

By sector, there has been no great divergence during the past two months, although Basic Materials (+3.9%) have recovered some of their earlier decline while Utilities (-3.3%) were the weakest industrial sector.

Bond markets have continued to weaken, as the planned 'tapering' of QE comes nearer, but also – more positively – because the outlook for GDP growth is improving in UK and Europe, while remaining steady in the United States. The table below shows that, since the end of March 2013, 10-year yields have risen by 1% in the US and UK, and by 0.5% in Germany. By increasing the discount rate used, this will have reduced the present value of pension scheme liabilities significantly.

10-year government bond yields (%)				
	Dec 2012	**Mar 2013**	**June 2013**	**August 2013**
US	1.76	1.85	2.49	2.76
UK	1.85	1.78	2.45	2.79
Germany	1.32	1.29	1.73	1.86
Japan	0.79	0.57	0.86	0.73

[Source: Financial Times]

In **commodities**, the unrest in Egypt and Syria has caused a 10% rise in the price of oil, while gold has also rallied from $1200 to $1400 since the end of June.

In the **currency** markets, there was little change in the major cross-rates, although the dollar weakened marginally.

	30.06.13	**31.08.13**	**£ move**
$ per £	1.517	1.547	+2.0%
€ per £	1.167	1.173	+0.5%
Y per £	150.7	151.8	+0.7%

[Source: Financial Times]

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers
September 9th, 2013