



**Pension Fund Sub-Committee**  
19 November 2013

**Report from the Chief Finance Officer**

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 September 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 increased in value by £7.6m from £540.8m to £548.4m during the quarter ended 30 September 2013, and the Fund's return of 1.5% underperformed its quarterly benchmark of 2.5%.
- b) The main negative relative performers compared to benchmark were private equity and infrastructure (mainly denominated in US\$) attributable to sterling strengthening against the US dollar in the quarter from \$1.517 per £ at 30 June 2013 to \$1.619 per £ at 30 September 2013, an increase of 6.7%.
- c) The 12-month return as at 30 September 2013 continues to remain in double-digit territory at 11.0%, albeit lagging behind its 12.1% benchmark.
- d) The Fund return for the 3 years ended 30 September 2013 is an annualised 6.5% p.a., which is identical to its long term investment return target of 6.5% p.a.
- e) Following the quarter ended 30 September 2013, the Fund has continued to increase in value by an estimated £12.9m to £561.3m during the month of October 2013.

**2. RECOMMENDATIONS**

2.1 Members are asked to note the investment report.

### 3. DETAIL

#### Economic and market background – quarter ended 30 September 2013

- 3.1 During the quarter ended 30 September 2013, the US Federal Reserve surprised markets by deciding not to slow down (“taper”) quantitative easing and expressing a more dovish outlook. Supportive fundamentals including low inflation, sub-trend growth, continued deleveraging and significant investor support for bonds which have kept yields at subdued levels so far have all contributed to the sentiment that low interest rates continue to be necessary in order to promote growth in the economy.
- 3.2 Economic news from around the world continues to improve, though the improvement is not accelerating significantly. Britain’s economic growth is showing an upturn of 1.4% this year, rising to 1.9% in 2014. Europe as a whole is no longer in recession though many national economies are still shrinking and their governments are still reducing expenditure. Consumers’ vulnerability to the level of debt is reducing, but only slowly. This means that there is unlikely to be a smooth recovery and it is likely that there will be further difficulties in several Eurozone economies. Furthermore, the budget difficulties in the US will have increasingly disruptive effects the longer they continue and risks to the wider global economy remain high. So although economic prospects are distinctly brighter than for some years, recovery will be slow and intermittent.
- 3.3 A market review for the quarter ended 30 September 2013, written by the Independent Financial Adviser, is attached.

#### Investment performance of the Fund

- 3.4 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 Sept 2012	Period ended 30 June 2013 *
1 year	98 <sup>th</sup>	88 <sup>th</sup>
3 years	100 <sup>th</sup>	100 <sup>th</sup>
5 years	100 <sup>th</sup>	100 <sup>th</sup>

\* 30 September 2013 currently unavailable

- 3.5 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.

- 3.6 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 98<sup>th</sup> to 88<sup>th</sup> 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 available published quarter ended 30 June 2013 which places the Brent Pension Fund at the 43<sup>rd</sup> percentile.
- 3.7 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.

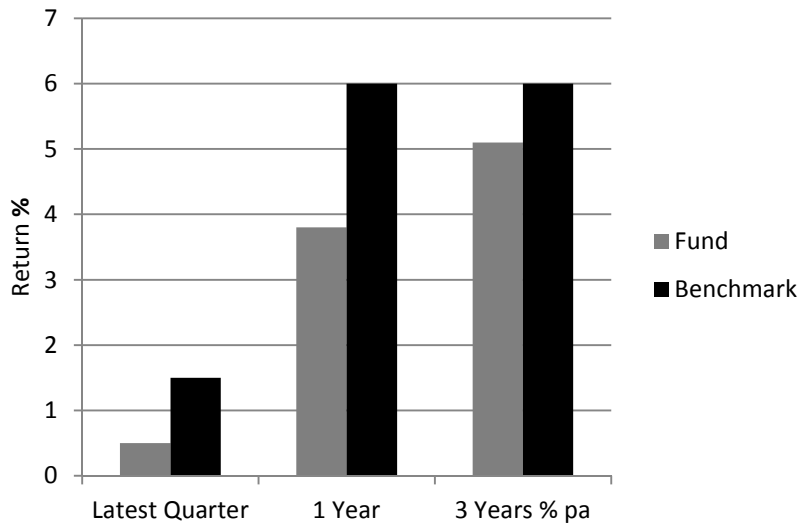
**Table 1: Asset allocation as at 30 September 2013 compared to the benchmark**

<b>Market (1)</b>	<b>Market Value 30/9/13 £M (2)</b>	<b>Market Value 30/9/13 % (3)</b>	<b>WM LA Average 30/9/13 % (4)</b>	<b>Fund Benchmark 30/9/13 % (5)</b>	<b>Market Value 30/6/13 £M (6)</b>	<b>Market Value 30/6/13 % (7)</b>	<b>WM LA Average 30/6/13 % (8)</b>
<b>Fixed Income</b>							
Henderson – Total Return Bond Fund	82.1	15.0	n/a	15.0	81.8	15.1	17.0
<b>Equities</b>							
UK – Legal & General	81.3	14.8	n/a	13.0	76.9	14.2	26.5
UK - Smaller Companies Fund Henderson	24.1	4.4	*	4.0	21.4	4.0	*
O/seas – developed Legal & General	127.7	23.3	n/a	22.0	126.2	23.3	33.0
O/seas – emerging Dimensional	33.4	6.1	n/a	8.0	33.0	6.1	6.0
<b>Property</b>							
Aviva	33.8	6.2	n/a	8.0	33.6	6.2	6.6
<b>Private Equity</b>							
Capital Dynamics	70.0	12.7	n/a	10.0	70.0	12.9	3.8
Yorkshire Fund	1.1	0.2	*		1.1	0.2	*
<b>Hedge Funds</b>							
Fauchier	28.7	5.2	n/a	5.0	27.9	5.2	1.7
<b>Infrastructure</b>							
Alinda	15.9	2.9	n/a	6.0	16.6	3.1	0.7
Capital Dynamics	16.6	3.0	*		15.3	2.8	*
Henderson PFI Fund II	1.1	0.2	*		0.9	0.2	*
<b>Pooled Multi Asset</b>							
Baillie Gifford DGF	33.4	6.1	n/a	8.0	33.0	6.1	1.5
<b>Cash</b>							
	-0.8	-0.1	n/a	1.0	3.1	0.6	3.2
<b>Total</b>	<b>548.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>540.8</b>	<b>100.0</b>	<b>100.0</b>

## Manager performance relative to benchmark

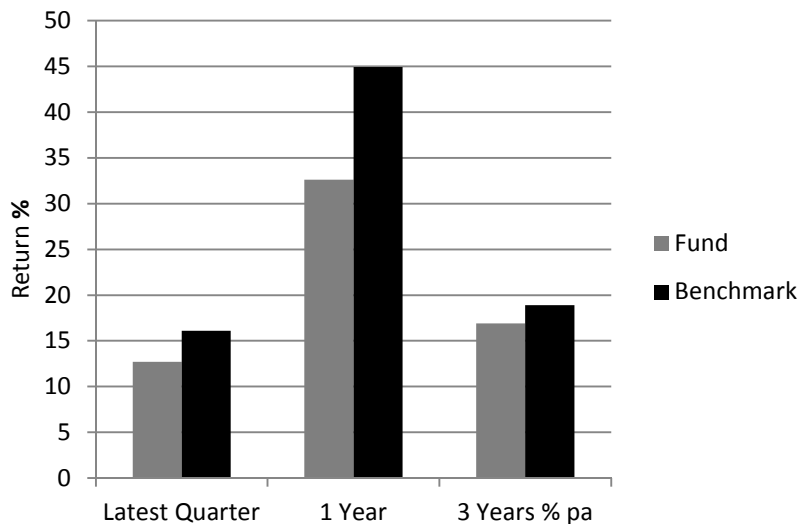
3.8 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of September 2013.

### Henderson – Total Return Bond Fund



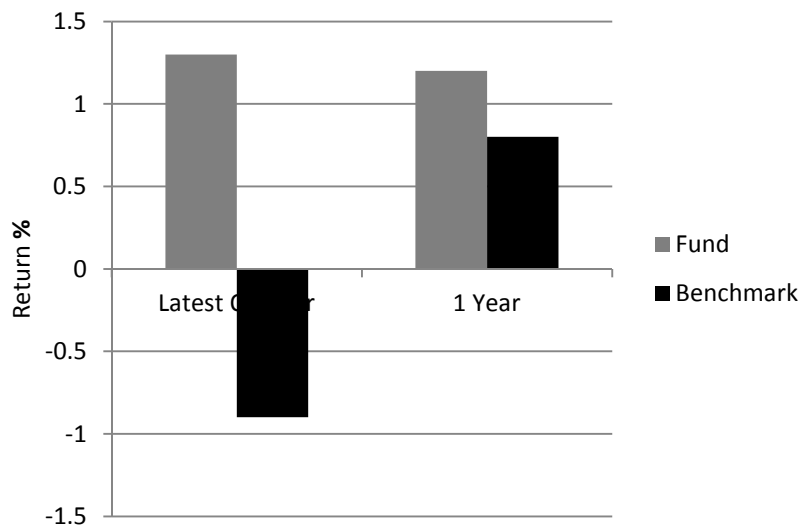
Whilst steady positive returns are being delivered, Henderson's Total Return Bond Fund performance is lagging behind its 6% p.a. absolute return benchmark in respect of the latest quarter, 1 Year and 3 Year periods.

### Henderson – UK & Irish Smaller Companies Fund



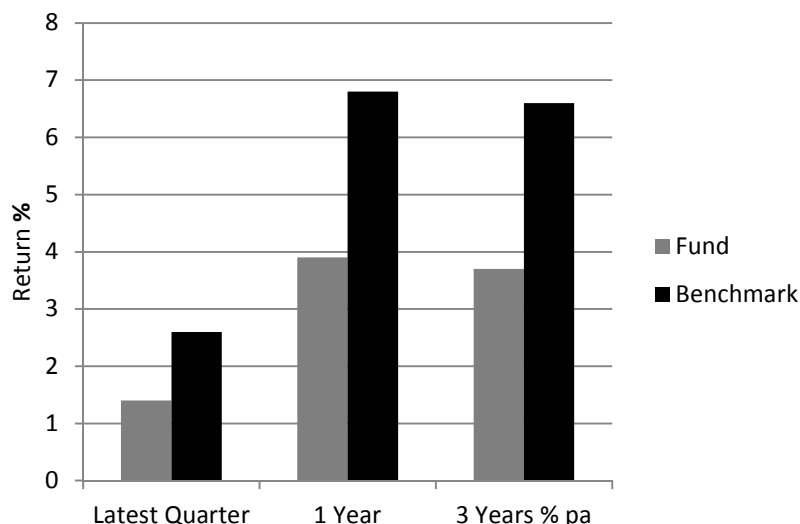
Henderson's UK & Irish Smaller Companies Fund has delivered strongly positive returns over recent periods – up 12.7% over the latest quarter, 32.6% over the last 12 months and an annualised 16.9% p.a. over the past 3 years. However, the Fund has underperformed against its benchmark FTSE SmallCap Index. 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



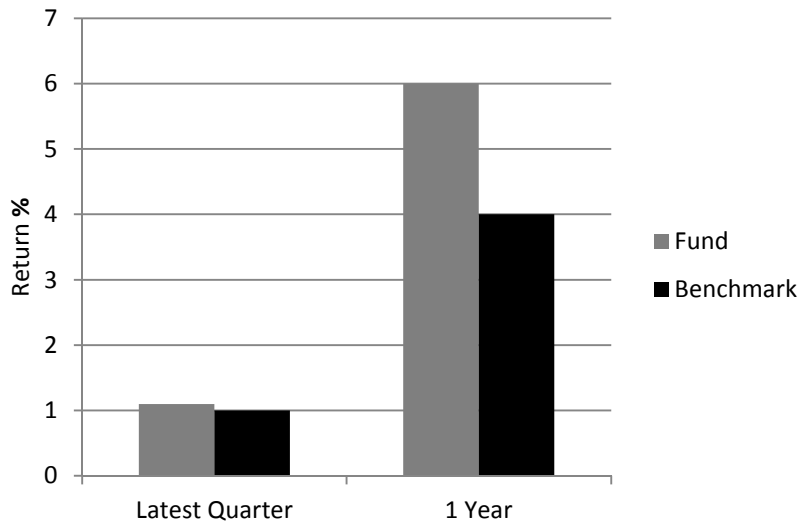
Dimensional's Emerging Markets Value Fund has delivered an investment return of 1.2% over the last year. This compares favourably to its benchmark MSCI Emerging Markets Index which was 0.8% during the year, with the outperformance coming in the latest quarter where the manager achieved a return of 1.3% when compared to the benchmark MSCI Emerging Markets Index of -0.9%.

### Aviva – Property



The Aviva property portfolio aims to maximise total return through a combination of capital growth and income return. Whilst steady positive returns are being delivered, Aviva's property portfolio performance continues to lag behind its IPD All Properties Index based benchmark in respect of the latest quarter, 1 Year and 3 Year periods.

### 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, with the latest quarter broadly matching the benchmark. The Baillie Gifford DGF was the Fund's newest investment acquisition in June 2012.

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

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

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/9/13			Year Ended 30/9/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
<b>Fixed Income</b>							
Total Return Bond Fund Henderson	0.5	1.5	n/a	3.8	6.0	n/a	Absolute return 6% p.a.
<b>Equities</b>							
UK – Legal & General	5.6	5.6	n/a	19.1	18.9	n/a	FTSE All Share
UK - Small Companies Henderson	12.7	16.1	n/a	32.6	44.9	n/a	FTSE Small Cap
O/seas – developed Legal & General	1.2	1.2	n/a	20.7	20.7	n/a	FTSE Dev World ex UK
O/seas – emerging Dimensional	1.3	-0.8	n/a	1.6	1.0	n/a	MSCI Emerging Markets
<b>Property</b>							
Aviva	1.4	2.6	n/a	3.9	6.8	n/a	IPD All Properties Index
<b>Private Equity</b>							
Capital Dynamics	-3.7	2.0	n/a	9.8	8.0	n/a	Absolute return 8% p.a.
Yorkshire Fund Managers	4.7	2.0	*	6.2	8.0	*	Absolute return 8% p.a.
<b>Hedge Funds</b>							
Fauchier	2.8	1.4	n/a	12.9	5.5	n/a	LIBOR + 5% p.a.
<b>Infrastructure</b>							
Alinda	-5.7	2.0	n/a	0.1	8.0	n/a	Absolute return 8% p.a.
Capital Dynamics	-7.3	2.0	*	-15.5	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	17.2	2.0	*	-1.8	8.0	*	Absolute return 8% p.a.
<b>Pooled Multi Asset</b>							
Baillie Gifford DGF	1.1	1.0	n/a	6.0	4.0	n/a	Base Rate + 3.5% p.a.
<b>Cash</b>							
	0.1	0.1	n/a	0.5	0.5	n/a	Base Rate
<b>Total</b>	<b>1.5</b>	<b>2.5</b>	<b>n/a</b>	<b>11.0</b>	<b>12.1</b>	<b>n/a</b>	

3.10 The Fund's overall return of 1.5% underperformed its quarterly benchmark of 2.5%. Whilst Emerging Market Equities and Fund of Hedge Funds outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Property, Private Equity and Infrastructure underperformed against their benchmarks.



- 3.11 Over one year, the Fund return of 11.0% was below its benchmark of 12.1%. Whilst Emerging Market Equities, Hedge Funds, Diversified Growth and Private Equity outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Property and Infrastructure underperformed against their benchmarks.

### **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:

<b>Investment</b>	<b>Statutory limit under regulation</b>	<b>Actual exposure at 30 Sept 2013</b>	<b>Compliant Yes / No</b>
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 September 2013

3.13 Following the quarter ended 30 September 2013, the Fund has increased in value by an estimated £12.9m:

	As at 31 October 2013 £M	As at 30 September 2013 £M	Movement
<b>Fixed Income</b>			
Henderson	82.8	82.1	↑
<b>Equities</b>			
UK Legal & General	84.7	81.3	↑
UK - Small Companies Henderson	24.9	24.1	↑
O/seas – Developed Legal & General	133.8	127.7	↑
O/seas – Emerging Markets Dimensional	35.3	33.4	↑
<b>Property</b>			
Aviva	33.8	33.8	=
<b>Private Equity</b>			
Capital Dynamics	70.0	70.0	=
Yorkshire Fund Managers	1.1	1.1	=
<b>Hedge Funds</b>			
Fauchier	28.9	28.7	↑
<b>Infrastructure</b>			
Alinda	15.9	15.9	=
Capital Dynamics	16.6	16.6	=
Henderson PFI Fund II	1.1	1.1	=
<b>Pooled Multi Asset</b>			
Baillie Gifford DGF	44.2	33.4	↑
<b>Cash</b>			
	-11.8	-0.8	↓
<b>Total</b>	<b>561.3</b>	<b>548.4</b>	↑

## 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 – September 2013 quarter report  
Legal & General – September 2013 quarter report  
Fauchier Partners – September 2013 quarter report  
Dimensional Asset Management – September 2013 quarter report

## **9. CONTACT OFFICERS**

- 9.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 1472 at Brent Town Hall.

**CONRAD HALL**  
Chief Finance Officer

**ANTHONY DODRIDGE**  
Head of Exchequer and Investment

QUARTERLY REVIEW PREPARED FOR

**Brent Council Pension Fund**

**Q3 2013**

15 October 2013

**Peter Davies**

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## BRENT COUNCIL PENSION FUND

### Quarterly Review, July – September 2013

#### The Economy

- The UK economy grew by 0.7% in the second quarter, with all areas of the economy contributing. Together with positive industry surveys, this has caused a sharp increase in forecasts for growth in 2013 and 2014, as highlighted in the table below. Second-quarter growth in the Eurozone turned positive for the first time in six quarters. The Japanese and Chinese economies have maintained their growth levels, although there have been slight reductions in the outlook for the United States.

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

Consensus real growth (%)						Consumer prices latest (%)
	2010	2011	2012	2013E	2014E	
<b>UK</b>	+1.6	+0.9	-0.1	+1.4 (+1.0)	+2.3 (+1.6)	+2.7 (CPI)
<b>USA</b>	+2.9	+1.7	+2.2	+1.6 (+1.9)	+2.7 (+2.8)	+1.5
<b>Eurozone</b>	+1.7	+1.5	-0.5	-0.3 (-0.6)	+1.0 (+0.8)	+1.1
<b>Japan</b>	+4.2	-0.7	+1.9	+1.8 (+1.8)	+1.6 (+1.6)	+0.9
<b>China</b>	+10.3	+9.2	+7.8	+7.5 (+7.5)	+7.3 (N/A)	+2.6

[Source: The Economist, 05.10.13]

- In early August, the new Governor of the Bank of England, Mark Carney, pledged to keep Base Rate at 0.5% until UK unemployment falls to a level of 7% from its current 7.8%. The Bank's own forecasts do not expect this to happen until mid-2016. He also said, however, that this interest rate policy would be altered if inflation was threatening to get out of control.
- In the United States, the rate of unemployment had been edging downwards, so that it was a great surprise to markets when the Chairman of the Federal Reserve, Ben Bernanke, announced in mid-September that he did not intend to start 'tapering' the rate of Quantitative Easing yet. It had been generally expected that the \$85 bn per month of bond purchases would be reduced by \$10-15bn from September, but the Fed decided (with some dissenters) that economic growth was not yet well enough established to permit this. In a mirror image of the markets' reaction to the initial tapering announcement in May, equities and bonds rose sharply in the following days.

4. In Japan Prime Minister Abe's LDP party performed strongly in the Upper House elections in July, so that the LDP with its coalition partner now has a majority in both Houses of the Diet, and should be able to push through its structural reforms. He has since announced that he will implement the planned rise in consumption tax from 5% to 8% in April 2014, as a step towards tackling the country's fiscal deficit.
5. The German Chancellor, Angela Merkel's CDU party made big gains in the German elections in September, but her former coalition partners, the FPD, failed to reach the 5% threshold for representation in Parliament. The Chancellor is now in talks with the SPD about forming a Grand Coalition, and possibly also with the Greens, so that the shape of the new government may not become clear until December. In Australia Tony Abbott replaced Kevin Rudd as Prime Minister after a resounding win for his Liberal party over Labor in the election in September.

## Markets

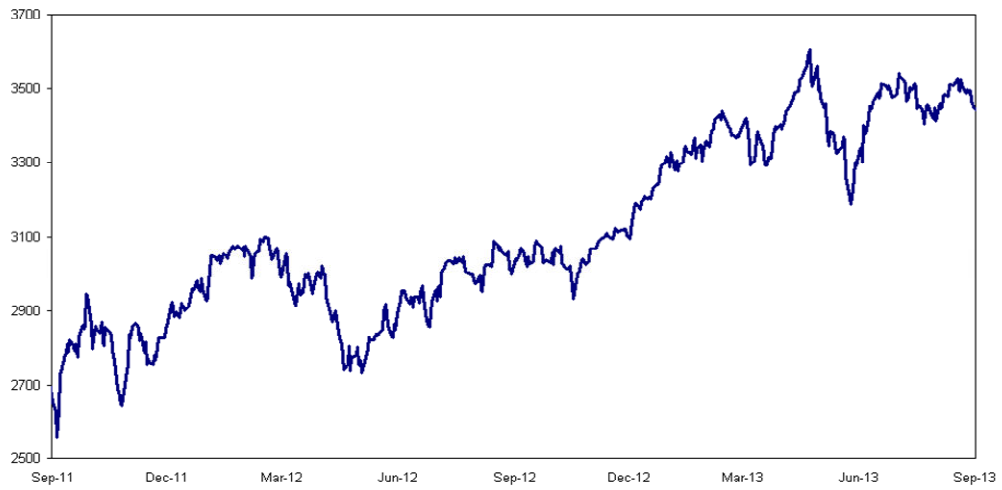
6. **Equities** had risen by some 5% in July, but most of this gain had been surrendered by the end of August, partly on fears that the chemical attacks in Syria would provoke military intervention by the Western powers. When the UK parliament failed to back any military action, and President Obama also deferred a decision until Congress had discussed it, markets stabilised. The subsequent agreement with Russia and the West for Syria to dispose of its chemical weapons calmed investors' nerves.
7. The recovery of equities in September was then stopped in its tracks by the Fed's decision to delay tapering (see para 3), and markets ended September close to where they had started the month. As the following table shows, the UK and Europe were the only markets to gain ground (in sterling) during the quarter, and Emerging Markets continued to lag behind all Developed Market regions.

	<b>Capital return (in £, %) to 30.09.13</b>		
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	<b>FTSE All-World Index</b>	<b>+0.6</b>	<b>+15.1</b>
50.3	FTSE All-World North America	-1.3	+15.8
8.8	FTSE All-World Japan	-0.5	+28.7
12.0	FTSE All-World Asia Pacific ex Japan	-0.5	+3.7
17.3	FTSE All-World Europe (ex-UK)	+6.6	+22.9
8.2	FTSE All-World UK	+4.1	+13.1
9.4	FTSE All-World Emerging Markets	-3.1	-2.8

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

Since the market correction in the summer of 2011, the UK equity market has gained 30% and the US market over 40%, in sterling terms, as shown in the graphs below.

UK FTSE All-Share



S&P 500



8. There was very little dispersion in the performances of the different industrial sectors during the third quarter. As shown in the table below, Basic Materials recovered some of its earlier lost ground, but remains the weakest performer over the past year.

<b>Capital return (in £, %) to 30.09.13</b>		
<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
Consumer Services	+1.5	+23.5
Industrials	+3.5	+23.2
Health Care	-1.0	+22.4
Financials	+0.2	+21.5
Consumer Goods	-1.6	+18.2
<b>FTSE All-World</b>	<b>+0.6</b>	<b>+15.1</b>
Technology	+1.3	+8.3
Telecommunications	-0.3	+6.5
Utilities	-3.4	+3.6
Oil & Gas	+0.1	+2.5
Basic Materials	+4.4	-3.0

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

9. Within the UK Equity market, the medium- and small-cap sectors have continued to outpace the FTSE 100 stocks by a wide margin, as shown in the table below.

<b>(Capital only %, to 30.9.13)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>+ 4.0</b>	<b>+12.5</b>
<b>FTSE 250</b>	<b>+ 8.0</b>	<b>+27.0</b>
<b>FTSE Small Cap</b>	<b>+10.2</b>	<b>+30.8</b>
<b>FTSE All-Share</b>	<b>+ 4.7</b>	<b>+14.9</b>

[Source: Financial Times]



10. **Government Bond** yields in US, UK and Germany rose for most of the quarter, with US and UK 10-year yields reaching the 3% level in mid-September. The Fed's surprise decision to delay the start of tapering caused an immediate fall in yields on the prospect of undiminished purchasing by the Fed for at least three more months. In Japan, by contrast, the Central Bank's programme of bond purchases is well underway, and government bond yields there have declined steadily.

<b>10-year government bond yields (%)</b>					
	<b>Dec 11</b>	<b>Dec 12</b>	<b>Mar 2013</b>	<b>June 2013</b>	<b>Sept 2013</b>
<b>US</b>	1.88	1.76	1.85	2.49	2.62
<b>UK</b>	1.98	1.85	1.78	2.45	2.73
<b>Germany</b>	1.83	1.32	1.29	1.73	1.78
<b>Japan</b>	0.98	0.79	0.57	0.86	0.69

[Source: Financial Times]



## Currencies

11. The improved outlook for the UK economy has resulted in a strong move for sterling during September, and it registered gains against all the main currencies in the quarter.

	<b>30.06.13</b>	<b>30.09.13</b>	<b>£ move</b>
\$ per £	1.517	1.619	+ 6.7%
€ per £	1.167	1.196	+ 2.5%
¥ per £	150.7	158.9	+ 5.4%

[Source: Financial Times]

Sterling has risen from below \$1.50 during June to above \$1.60 at the end of September – equalling its highest level against the dollar in the past two years as illustrated below.



## Commodities

12. Gold rallied strongly during July, following its earlier weakness, and both gold and oil strengthened on worries about the developing situations in Egypt and in Syria. The removal of the threat of Western intervention in Syria allowed the price of both commodities to stabilise in September.





## Property

13. **UK Property** values have made good progress during the quarter. According to the IPD Monthly Index, the total return on All Property was +2.9%, with both Office and Industrial returning 3.7% and Retail 2.0%. The total return figures for the year to end-September are:

All Property	+6.5%
Office	+8.8%
Industrial	+8.6%
Retail	+4.2%

## Outlook

14. October has begun in rather bizarre fashion with the US Federal Government shutdown, after the House Republicans refused to pass the budget unless President Obama's healthcare reforms were delayed or rescinded. This raised the spectre of disruption to the servicing of Treasury debt unless the deficit ceiling was increased on October 17<sup>th</sup>. The Republican leadership has offered to postpone this deadline for six weeks, but at the time of writing the federal shutdown continues. This threatens to slow the rate of economic growth in the US, which could further delay the start of 'tapering' by the Federal Reserve.

15. Provided the US situation is resolved soon, the improving economic outlook in the UK and Europe should underpin equity markets there, while the eventual start of tapering by the Federal Reserve is likely to cause US bond yields to move higher. In the absence of any negative news on China's economic outlook or the Eurozone's recovery, I believe equities are well supported at current levels.

Peter Davies

Senior Adviser – AllenbridgeEpic Investment Advisers

October 15th, 2013

[All graphs supplied by Legal & General Investment Management]