Brent	**Pension Fund Sub-Committee** 17 November 2015 **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 June 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 2.3% from £657.6m to £642.4m during the quarter ended 30 June 2015, underperforming its quarterly benchmark return by 1.5%. 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 June 2015 the value of the fund therefore risen from £627.2m to £642.4m or by 2.4%. WM reported updated market value of £657.6 from £655.1m for March15 Q1 related to the Private Equity.

b) The Private Equity Fund of Fund holding reduced in value by 8.9% and have returned the distribution of £4.9m.

c) 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).

d) 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%

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

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	6.1 %	7.6%	N/A
3 years (per annum)	9.6%	9.7%	N/A
5 years (per annum)	8.3%	8.6%	N/A

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 June 2015

3.1 Overall global equity returns were flat during the quarter. Bond yields rose sharply across all maturities resulting in sharp negative returns for investors.

3.2 The UK showed signs of upward mobility in April and outperformed the global index in May, before falling back in June to be flat to negative over the quarter posting a loss of 1.6% mainly in overseas equities. The unexpectedly decisive UK general election result acted as a counterbalance to the negative market sentiment resulting from the breakdown of Greek bailout negotiations in the Eurozone. There was disappointment in manufacturing data released during June, but UK inflation was shown to have turned positive in May, following April's negative reading.

3.3 In the US, rapid recovery was put on hold in April as it was revealed that first quarter GDP grew at a rate of only 0.2%, diverging from recent steady increases. Initial market gains were attributable to the slowdown in growth which raised hopes that the Federal Reserve was not about to begin a cycle of interest rate rises. In May, the first quarter estimate of US first quarter GDP was revised down, from growth of 0.2% to a contraction of 0.7%. In June there was a modest improvement in economic data. The US reported a loss of 5.4% over the quarter. See comment re UK equities

3.4 Emerging markets posted a gain of 0.69% over the quarter. They began the quarter benefiting from continued accommodative monetary policy in the US and the potential for quantitative easing in the Eurozone. In June, emerging markets were let down by China. After its strong run over the past year, the domestic A-share market corrected sharply from mid-month. Chinese stocks listed in Hong Kong also declined sharply. Latin America outperformed other emerging regions, as Brazil rebounded from recent weaknesses.

3.5 Over the quarter the Eurozone posted a loss of 5.8%. During May, European markets advanced, bolstered by reports that the ECB was temporarily setting up its stimulus programme. However, on anticipation of the stimulus boost and worries about the Greek debt, most of the gains were eroded. As the Eurozone crisis intensified, global equity markets declined in aggregate in June. Positively there was confirmation that the Eurozone's GDP grew by 0.4% in the first quarter, and inflation remained positive, despite falling back slightly.

3.6 After reaching low levels earlier this year, bond yields rose sharply up across all maturities, resulting in sharp negative returns for investors. Late April saw the start of a sharp, Europe led sell off in global bonds. UK government bonds did not escape the global sell-off. Fixed interest gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for over 15 years gilt index. Index-linked gilts generated a quarterly loss of 3.3%. Credit spreads rose slightly in the UK resulting in a -3.9% total return in All Stocks UK Corporate Bonds.

3.7 UK property returned 3.6% over the quarter. The UK commercial property sector is continuing to enjoy significant inward capital flows. Competition for assets remains very strong and occupier markets continue to improve. Occupier confidence is at some of the highest levels seen for many years. This, combined with the limited supply of available space in key markets, is increasing rents. The market is expected to achieve total returns of around 12% in 2015 with a reduced return of 7-9% between 2017and 2019.

3.8 A market review for the quarter ended 30 June 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 31 Mar 15	Period ended 30 Jun 2015
1 year	92nd	87th
3 years	94th	84th
5 years	97th	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.

3.11 The Fund has under-performed over the past few years, largely due to its lower weighting in equities (49% 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 14% 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 7 cannot be separately analysed, but are included within the relevant asset class.

Table 1: Asset allocation as at 30 June 2015 compared to the benchmark

Assets (1)	Market Value 30/6/15 £M (2)	Market Value 30/6/15 % (3)	WM LA Average 30/6/15 % (4)	New Fund Benchmark 30/6/15 % (5)	Market Value 31/3/15 £M (6)	Market Value 31/3/15 % (7)
Fixed Income						
Henderson – Total Return Bond Fund	86.0	13.4	16.6	15.0	86.0	13.1
Equities						
UK – Legal & General	89.4	13.9	21.4	15.0	90.8	13.8
UK - Smaller Companies Fund Henderson	27.0	4.2	*	5.0	26.0	4.0
O/seas – developed Legal & General	154.9	24.1	29.2	20.0	163.6	24.9
O/seas – emerging Dimensional	38.8	6.0	3.5	0.0	40.7	6.2
Property						
Aviva	37.7	5.9	8.5	0.0	37.1	5.6
Private Equity						
Capital Dynamics	86.7	13.5	4.2	10.0	95.1	14.5
Yorkshire Fund	0.9	0.1	*		0.9	*0.1
Infrastructure						
Alinda	28.8	4.5	1.5	8.0	29.8	4.5
Capital Dynamics	0.0	0.0	*		0.0	*0.0
Henderson PFI Fund II	0.9	0.1	*		0.9	0.1
Pooled Multi Asset						
Baillie Gifford DGF	68.9	10.7	3.5	21.0	69.2	10.5
Cash	22.5	3.5	2.9	1.0	17.6	2.7

Total	**642.4**	**100.0**	**100.0**	**100.0**	**657.7**	**100.0**

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

<u>Table 2: Investment Returns in Individual Markets</u>

Investment Category	**RETURNS**						**Benchmark/ Index Description**
	Quarter Ending 31/3/15			**Quarter Ended 30/6/15**			
	Fund %	**Benchmark %**	**WM Local Auth %**	**Fund %**	**Benchmark %**	**WM Local Auth %**	
Fixed Income							
Total Return Bond Fund Henderson	2.1	1.5	2.8	0.1	1.5	2.8	Absolute return 6% p.a.
Equities							
UK – Legal & General	4.7	4.7	4.9	-1.5	-1.6	-0.9	FTSE All Share
UK - Small Companies Henderson	0.8	3.3	*	5.3	5.4	*	FTSE Small Cap
O/seas – developed Legal & General	8.0	8.0	8.2	-5.4	-5.4	-4.5	FTSE Dev World ex UK
O/seas – emerging Dimensional	4.4	7.4	5.6	-4.7	-5.0	-4.7	MSCI Emerging Markets
Property							
Aviva	3.0	2.8	2.7	3.0	3.3	2.6	IPD All Properties Index
Private Equity							
Capital Dynamics	*	*	*	*	*	*	Absolute return 8% p.a.
Yorkshire Fund Managers	*	*		*	*		Absolute return 8% p.a.
Infrastructure							
Alinda	9.5	2.0	*	-2.4	1.9	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	3.2	1.0	*	-0.7	1.0	*	Base Rate + 3.5% p.a.
Cash	0.0	0.1	*	1.9	0.1	*	Base Rate
Total	**4.1**	**4.3**	**5.6**	**-2.3**	**-0.8**	**5.5**	

3.15 The Fund's return of -2.3% under-performed its benchmark of -0.8% in Q215.

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 Jun 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 Dec 2014 £'000	31 Mar 2015 £'000	30 Jun 2015 £'000
Capital Dynamics	28,524	28,002	28,000
Alinda	2,564	2,000	2,000
Yorkshire Fund Managers	0	0	0
Total	**33,632**	**30,002**	**30,000**

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 – June 2015 quarter report
Legal & General – June 2015 quarter report
Dimensional Asset Management – June 2015 quarter report
Baillie Gifford – June 2015 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.

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Chief Finance Officer

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2015

2 November 2015

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BRENT COUNCIL PENSION FUND
Quarterly Review, April – June 2015
Report by the Independent Financial Adviser

Economy

1. Early in June the OECD cut its forecast of global growth in 2015 from 3.7% to 3.1%, due largely to a revision in US growth from 3.1% to just 2.0%, and a 0.3% reduction in its estimate for China. In the event, the US produced quarterly growth of 0.6% in the second quarter, and the non-farm payroll growth has been running at a healthy 200,000 per month. The latest indications from the Federal Reserve are for the first rise in US interest rates to take place in September. Although the Chinese economy is still officially forecast to grow by 7% in 2015, supporting data such as power consumption and luxury spending suggest a slower rate of growth.

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

[Source of estimates: The Economist, August 8th 2015]

Consensus real growth (%)						**Consumer prices latest (%)**
	2012	**2013**	**2014**	**2015E**	**2016E**	
UK	-0.1	+1.7	+2.8	+2.4 (+2.5)	+2.4	+0.0 (CPI)
USA	+2.2	+1.9	+2.4	+2.6 (+2.6)	+2.7	+0.1
Eurozone	-0.5	-0.4	+0.8	+1.4 (+1.5)	+1.7	+0.2
Japan	+1.9	+1.7	+0.3	+0.9 (+0.8)	+1.6	+0.4
China	+7.8	+7.7	+7.4	+6.9 (+6.9)	+6.7	+1.4

2. The tortuous progress of **Greece**'s negotiations with its creditors has been the dominant story in financial markets during recent months. With its existing (second) bailout expiring at the end of June, and with an IMF loan of €1.6bn being repayable at the same time, there was a general apprehension that a default by Greece would trigger its exit from the Eurozone. After several breakdowns in the talks, the Greek side appeared in mid-June to be tightening its austerity proposals towards the terms demanded by its creditors, but the Greek Prime Minister suddenly announced on June 27th that he would call a referendum on the bailout terms then on offer (even though the terms officially lapsed before the July 5th referendum). Meanwhile, the European Central Bank was supplying emergency liquidity to the Greek banking system, so that the banks – which had rationed daily withdrawals – could cope with the demands for cash from the Greek public.

3. The referendum resulted in a 60% vote against the bailout terms, and the controversial Finance Minister Mr Varoufakis had resigned immediately afterwards. Within a week, however, the Greek negotiators had agreed to accept substantially the same terms subject to the approval of the Greek parliament. This was achieved while the ruling Syriza party remained in power. After a 5-week closure the Greek stockmarket re-opened, and shares

fell sharply for several days. The Greek government hopes to finalise the latest rescue package by August 18th, in time to repay an IMF loan, but the domestic political and economic outlook remains fragile.

4. The biggest surprise in the **UK Budget** on July 8th was the announcement of a new National Living Wage, starting at £7.20 per hour for over-25s in 2016, and rising to more than £9 per hour by 2020. This measure provoked differing views as to whether it would produce a real rise in incomes for the lower-paid, or encourage employers to shed jobs by substituting automation for what are lower-skilled jobs at present. Other Budget measures included plans to reduce benefit payments, increases in income tax thresholds and cuts in the rate of Corporation Tax from 20% to 19% in 2017 and to 18% in 2018.

5. Official forecasts showed the UK's budget deficit falling to 3.7% of GDP this tax year, and continuing to fall until a surplus emerges in 2019-20, one year later than previously planned.GDP growth is forecast to be steady at 2.4% annually each year until 2018, while inflation, as measured by CPI, is forecast to be below 1% until the end of 2016, and to remain in the 1-2% range for the subsequent four years.

6. The gyrations of the **Chinese domestic stockmarket** hit the headlines in June and July. Having risen by 150% in the previous year, the Shanghai Composite Index then started to fall rapidly in mid-June, and had fallen by some 30% from its peak by mid-July. The government tried a whole battery of measures to shore up the market – cutting interest rates, injecting reserves into the banking system, banning short-selling of index futures and, finally, central bank-funded purchases of index futures. The market level has stabilised since mid-July – partly because many shares suspended trading – but this period of calm may be only temporary. The direct effect on other stockmarkets is likely to be minimal, but the effect on domestic consumption may be more significant.

Markets

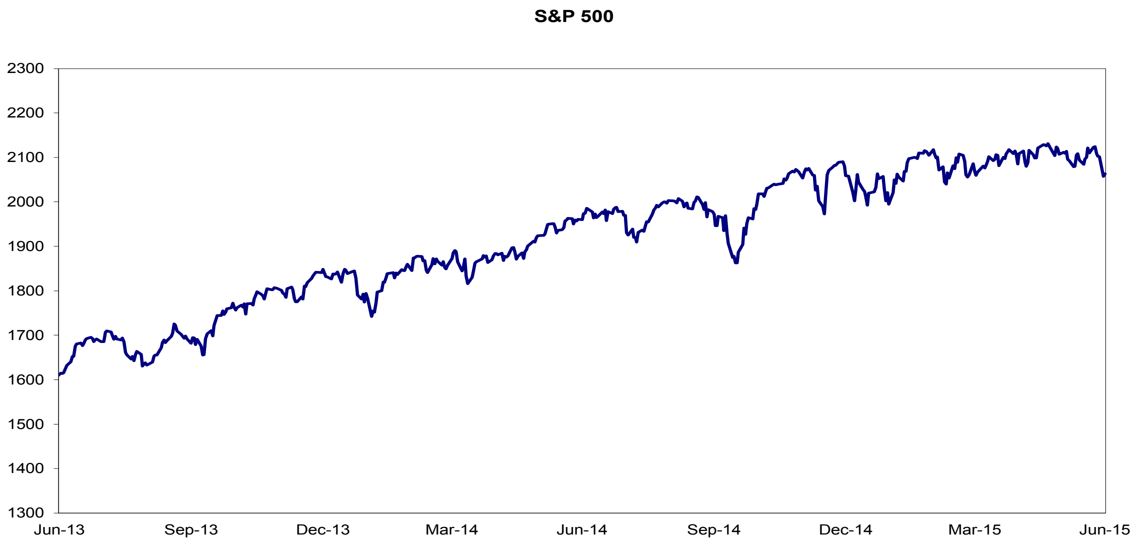
7. The All-World Equity Index had its first significant quarterly fall for over two years, although this was exaggerated by the strength of the £ against other currencies (see para 11). Despite making up some ground, the UK market remains the weakest over the past year, with Continental Europe only slightly ahead of it.

	Capital return (in £, %) to 30.6.15		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**-5.8**	**+7.6**
53.5	FTSE All-World North America	-5.9	+12.7
8.7	FTSE All-World Japan	-2.5	+16.8
11.9	FTSE All-World Asia Pacific ex Japan	-7.3	+5.3
15.9	FTSE All-World Europe (ex-UK)	-7.4	-2.5
7.2	FTSE All-World UK	-3.4	-2.9

9.3	FTSE All-World Emerging Markets	-4.9	+3.5

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

The S&P 500 Index has traded in a narrow range this year, close to its all-time peak.



8. There was little dispersion between the different sectors during the quarter, so that Health Care, Consumer Services and Technology continue to be the leaders over the past year. With the oil price having halved, it is no surprise that Oil & Gas has been by far the weakest sector during the past twelve months.

Capital return (in £, %) to 30.6.15		
Industry Group	**3 months**	**12 months**
Health Care	- 4.2	+25.3
Consumer Services	-5.4	+19.0
Technology	-6.8	+15.3
Financials	-4.5	+ 9.7
Consumer Goods	-6.3	+ 9.0
FTSE All-World	**-5.8**	**+ 7.6**
Industrials	-7.2	+ 6.3
Telecommunications	-4.1	+ 6.1

Utilities	-8.8	- 4.4
Basic Materials	-7.3	- 6.7
Oil & Gas	- 6.3	-21.7

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

9. In the **UK Equity** market, the mid- and small-cap sectors continued to perform more strongly than the large-caps

(Capital only %, to 30.6.15)	**3 months**	**12 months**
FTSE 100	**- 3.7**	**- 3.3**
FTSE 250	**+ 2.6**	**+11.5**
FTSE Small Cap	**+ 1.7**	**+ 5.3**
FTSE All-Share	**- 2.5**	**- 0.8**

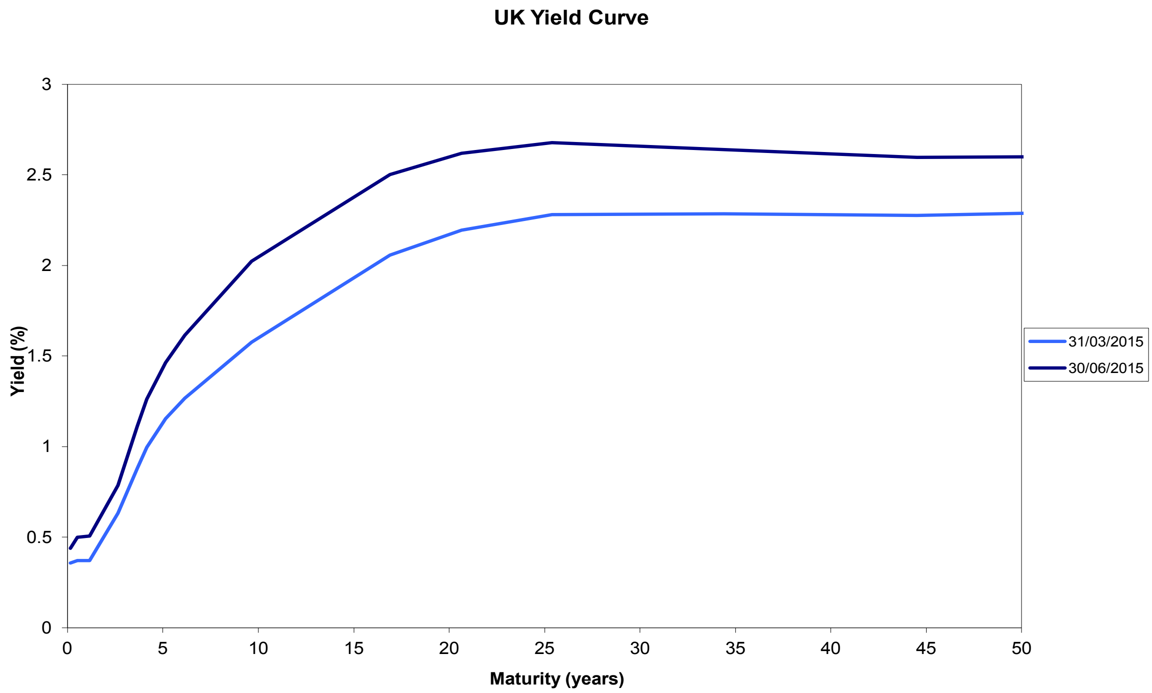
[Source: Financial Times]

10. **Government Bonds** reversed their sharp appreciation seen in the first quarter, and yields on the 'safe haven' bonds ended June higher than their end-December levels. Yields on peripheral European bonds rose, however, on fears of a Greek default.

10-year government bond yields (%)					
	Dec 12	**Dec 13**	**Dec 2014**	**Mar 2015**	**June 2015**
US	1.76	3.03	2.17	1.94	2.32
UK	1.85	3.04	1.76	1.70	2.14
Germany	1.32	1.94	0.54	0.18	0.77
Japan	0.79	0.74	0.33	0.41	0.45

[Source: Financial Times]

The rise in yields throughout the UK yield curve can be seen on the graph below.



Currencies

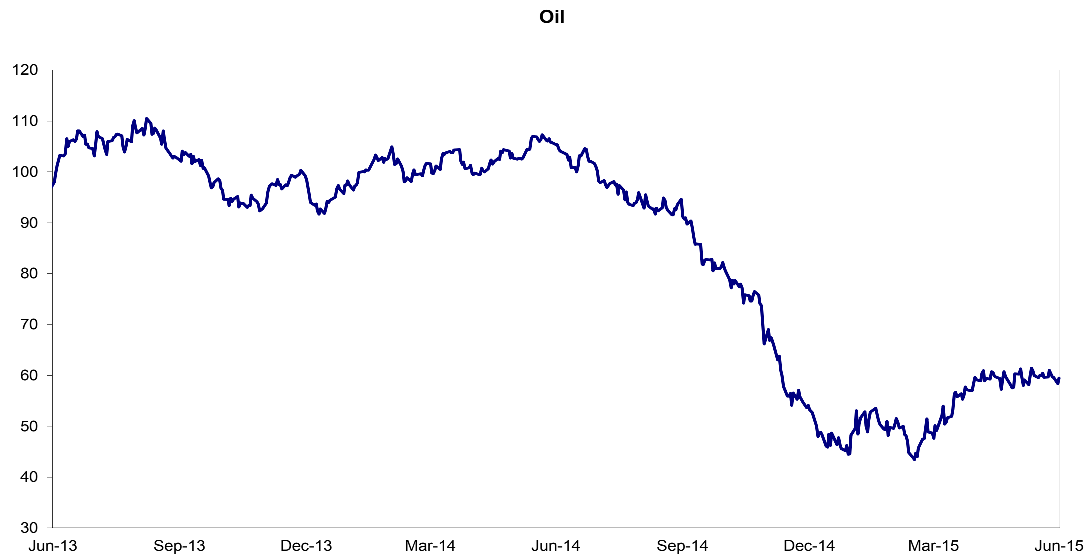
11. Sterling rose against all the other major currencies, as the uncertainty surrounding a possible hung parliament was dispersed by the decisive outcome of the UK General Election.

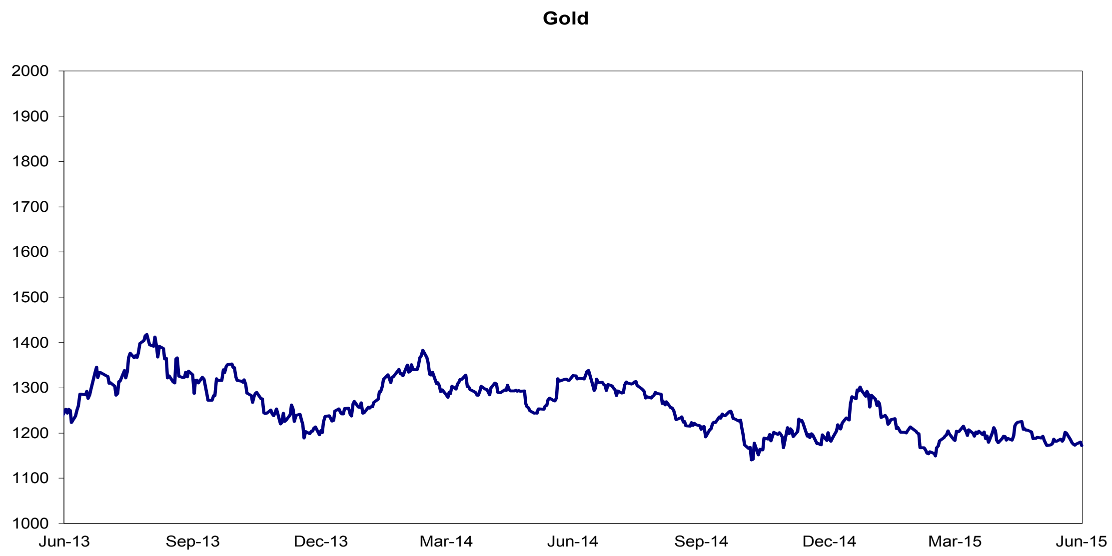
				£ move	
	30.6.14	**31.3.15**	**30.6.15**	**3m**	**12m**
$ per £	1.710	1.485	1.573	+5.9%	- 8.0%
€ per £	1.249	1.382	1.412	+2.2%	+13.0%
Y per £	173.2	178.0	192.4	+8.1%	+11.1%

At above 1.40, the pound stands at its highest level against the Euro for many years.

Commodities

12. Although the **oil** price gained during the quarter – Brent Crude rose from $55 to $63 – the following weeks saw a sharp reversal, with the price falling back to just $49 in early August. **Gold** fell to five-year lows as inflation became muted worldwide.





Property

13. **UK Property** continued to report steady gains, with the Office and Industrial sectors once more outpacing Retail Property.

	3-month	**12-month**
All Property	**+3.6%**	**+16.7%**
Retail	**+2.2%**	**+11.3%**
Office	**+5.2%**	**+21.8%**
Industrial	**+4.4%**	**+20.9%**

[IPD Monthly Index of total returns, June 2015]

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[All graphs supplied by Legal & General Investment Management]