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

## 1. SUMMARY

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

- a) The Fund reduced in value by 1.3% from £642.4m to £634.3m during the quarter ended 30 September 2015. The fund return outperformed the benchmark return of -2.4% in the quarter by 1.2%. This performance was within the context of a very difficult economic environment where there was reduced opportunity for investment growth in most markets. In the (calendar) year to 30 September 2015 the value of the fund has risen from £627.2m to £634.3 or by 1.3%
- b) Infrastructure and UK property produced the best absolute returns in the quarter (6.3% and 2.7% respectively). Infrastructure outperformed its benchmark by 4.3%. However UK property under performed its benchmark by 0.3%.
- c) Overseas emerging equities and UK equities produced the lowest absolute returns (detracting -15.8% and -5.7% respectively). Relative to benchmark, UK equities matched its benchmark and emerging market equities under performed its benchmark by 1.3%.
- d) The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 September 2015 is shown below:

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

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

## 2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

## 3. DETAIL

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

- 3.1 The quarter to September was an extremely turbulent period for investment markets. Global equity investors faced a testing and volatile environment, with sentiment strained by a series of factors that combined to drive all major regional indices lower. From a global perspective, mining and energy shares recorded the biggest falls. The emissions scandal at Volkswagen was the real surprise of the quarter.
- 3.2 In the UK, the FTSE 100 was down 6.1% in the quarter. During July, the Bank of England edged towards a rate rise, although the Governor cautioned that this was “counterbalanced somewhat by disinflation”. CPI inflation recorded 0.1% in the year to July. In September the Bank rate remained unchanged and core CPI fell to 1%.
- 3.3 The US market outperformed in July. Despite a strong start to the quarter, US stocks underperformed in August, with significant stock market falls resulting from the slowdown in China. The Federal Reserve’s decision to delay an interest rate hike resulted in stocks falling. Under ordinary circumstances, a delay in raising interest rates would be seen as being supportive of stock markets. In this instance, however, it was interpreted as a warning about the risks to the global economy and unsettled investors.
- 3.4 In Europe concerns over global growth slowdown and the Fed’s tightening cycle added to investors’ unease. Greece missed an IMF payment, imposed capital controls and called a referendum on creditor proposals. Eurozone parliaments approved a package for Greece which allowed the repayment of 3.2 billion Euros to the ECB. Eurozone growth was stronger than reported, with quarter 2 GDP rising 0.4%. The Eurozone lapsed back into deflation in September, with CPI falling 0.1% from a year earlier. The setback largely reflects the continuing decline in oil prices.
- 3.5 Japanese equities endured a steep slide during the quarter. Japan was caught in the global sell-off that left global equity investors in negative territory for the quarter and year to September.
- 3.6 UK property returned 3.4% over the quarter, with 2015 on course to be another excellent year for property investments. Volumes have been robust despite initial fears the general election and geo-political unrest could dampen activity.

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

- 3.7 Emerging markets endured a difficult quarter and underperformed developed markets. The MSCI Emerging Markets index fell 18%, in US terms, over the quarter. The quarter began with Chinese equities being particularly weak, while shares in Brazil and Korea also suffered heavily. As the quarter continued, Chinese equities recorded the steepest fall. Policy makers took action in August, devaluing the Yuan three times. By the end of the quarter, other Asian and emerging markets performed better in September than global shares overall. However, in aggregate, global emerging markets under performed their developed peers.
- 3.8 The volatility in investment markets during the quarter impacted on government bonds, corporate bonds and equities. While government bond markets generated positive returns, corporate bond and equity markets struggled with negative returns from both investment grade and high yield markets, as spreads widened amid broader risk-aversion.
- 3.9 A market review for the quarter ended 30 September 2015, written by the Independent Financial Adviser, is attached.

**Investment performance of the Fund**

- 3.9 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 30 Sep 15	Period ended 30 Jun 2015
1 year	37th	87th
3 years	61st	84th
5 years	81st	94th
10 years	100 <sup>th</sup>	98th

- 3.10 The comparative statistics show that the Fund has been one of the lower performing LGPS funds for a period of many years. It is not possible to turn this position around quickly without exposing the fund to unacceptable levels of risk. However, the improvements in the one and three year relative benchmark are somewhat encouraging, with the fund moving from the fourth to the second percentile over 1 year.
- 3.11 The Fund has under-performed over the past few years, largely due to its lower weighting in equities (46% of the fund, compared to the Local Authority average of

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

3.12 The large weighting in the Private Equity Fund of Funds has been a contributor to the fund's underperformance in recent years. The weighting is down to 15% of the portfolio due to a combination of underperformance and the fact that the investment has now become a net distributing asset.

3.13 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (\*) in columns 4 and 8 cannot be separately analysed, but are included within the relevant asset class.

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

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

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

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

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

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

### Compliance with statutory investment limits

3.16 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	Statutory limit under regulation	Actual exposure at 30 Sep 2015	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	24%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	19%	Yes

### Outstanding contractual commitments

- 3.17 The Brent Pension Fund has not entered into any new investments in private equity/infrastructure since November 2011 and whilst significant capital call payments have been made over the past two years, the outstanding contractual commitments on existing investments continue to remain significant as follows:

	31 Mar 2015 £'000	30 Jun 2015 £'000	30 Sep 2015 £'000
Capital Dynamics	28,002	28,000	26,600
Alinda	2,000	2,000	3,000
Yorkshire Fund Managers	0	0	0
<b>Total</b>	<b>30,002</b>	<b>30,000</b>	<b>36,600</b>

- 3.18 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise. It also prevents the Fund from moving to its strategic allocations in Property and limits the extent to which any new investments can be considered at the present time.

## 5. FINANCIAL IMPLICATIONS

- 5.1 These are included within the report.

## 6. DIVERSITY IMPLICATIONS

- 6.1 None.

## 7. STAFFING IMPLICATIONS

- 7.1 None.

## 8. LEGAL IMPLICATIONS

8.1 None.

**9. BACKGROUND INFORMATION**

9.1 Henderson Investors – September 2014 quarter report  
Legal & General – September 2014 quarter report  
Dimensional Asset Management – September 2014 quarter report  
Baillie Gifford – September 2014 quarter report

**10. CONTACT OFFICERS**

10.1 Persons wishing to discuss the above should contact the Investment and Pensions Section, on 020 8937 1472 at Brent Civic Centre.

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

QUARTERLY REVIEW PREPARED FOR

**Brent Council Pension Fund**

**Q3 2015**

2 November 2015

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**BRENT COUNCIL PENSION FUND**



## Quarterly Review, June – September 2015

### Report by the Independent Financial Adviser

#### Economy

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

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

[Source of estimates: The Economist, October 10<sup>th</sup> 2015]

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

2. On August 11<sup>th</sup>, the Chinese Central Bank suddenly announced that it would allow the currency to weaken slightly – having been very strong for the previous two years. In the event, the renminbi's parity against the dollar weakened by some 4% over the following days. This move was interpreted as a sign that China was concerned about the deteriorating balance of trade, but more broadly caused investors to question the prospects for Chinese economic growth. When combined with earlier volatility in the Chinese equity market, it was seen as a sign that the Chinese authorities were losing their grip on the economy.
3. This caused sharp falls in the Shanghai Composite Index, and the nervousness then spread to all world equity markets. Initially there was no official response in China, but on August 25<sup>th</sup> the Central Bank cut interest rates by 0.25% and eased bank reserve requirements. Short-selling was banned in China, and 'culprits' for the stockmarket's weakness were identified. In response to doubts about the Chinese economy, commodity prices fell sharply, with the oil price falling 30% in July and August, before rallying in September. Base metal prices also weakened, on the expectation of reducing demand from China.
4. Days after the Greek parliament had approved the terms of the European bailout on August 14<sup>th</sup>, the Greek prime minister, Mr Tsipras resigned and a General Election was called for September 20<sup>th</sup>. This resulted in a renewed term for his Syriza party, again in coalition with the Greek National party.

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

### Markets

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

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

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

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

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

[Source: Financial Times]

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

UK FTSE All-Share



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

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

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

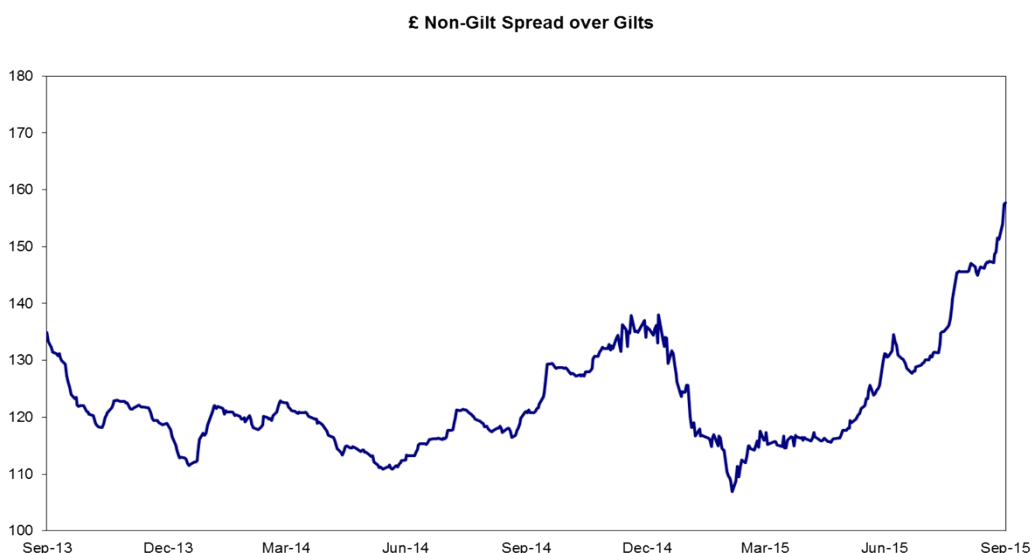
[Source: FTSE All-World Review, September 2015]

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

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

[Source: Financial Times]

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



## Currencies

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

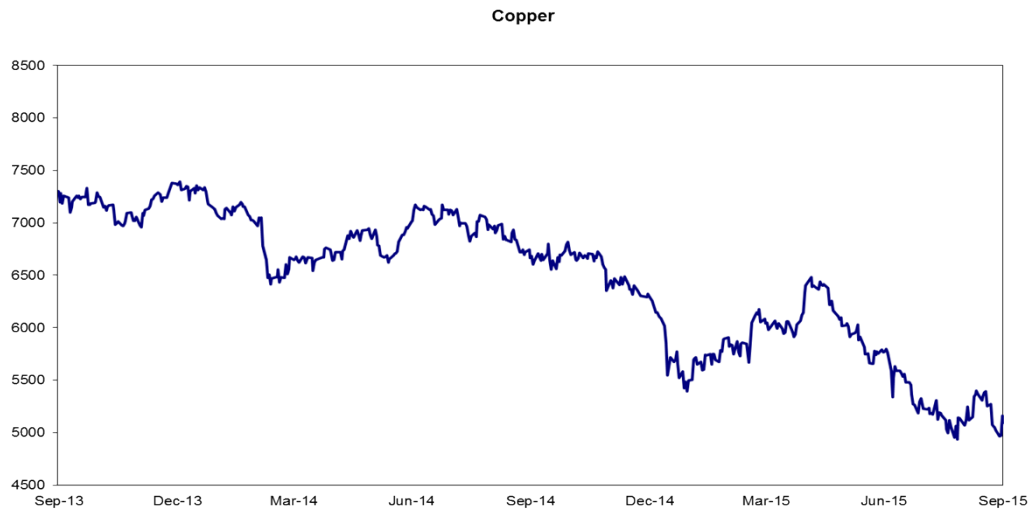
	30.9.14	30.6.15	30.9.15	£ move (%)	
				3m	12m
\$ per £	1.621	1.573	1.515	-3.7	-6.5
€ per £	1.283	1.412	1.357	-3.9	+5.8
¥ per £	177.8	192.4	181.4	-5.7	+2.0

[Source: Financial Times]

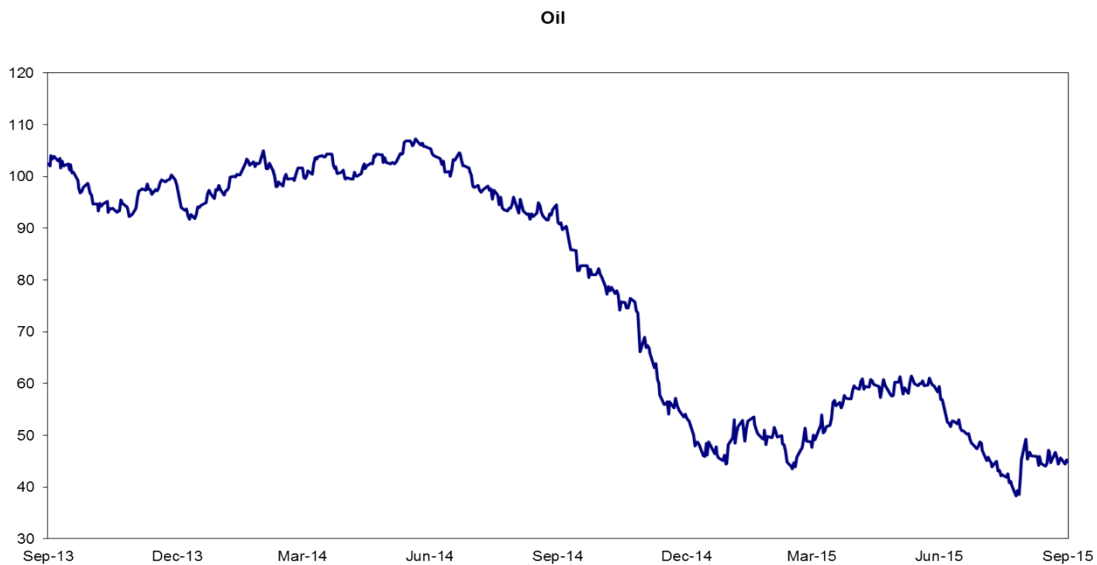


## Commodities

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



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



## Property

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

	<b>3-month</b>	<b>12-month</b>
<b>All Property</b>	<b>+3.4%</b>	<b>+15.3%</b>
<b>Retail</b>	<b>+2.2%</b>	<b>+9.5%</b>
<b>Office</b>	<b>+4.3%</b>	<b>+20.5%</b>
<b>Industrial</b>	<b>+4.6%</b>	<b>+19.7%</b>

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

**Outlook**

15. In the third quarter, equity markets finally confronted the prospect of slowing growth in China and the United States, and fell sharply amid increasing volatility. Having previously welcomed the continuation of low interest rates by Central Banks, investors now began to worry about the impact on corporate profits – especially among highly-g geared commodities producers.
  
16. This correction in equities has to some extent moderated the discrepancy between bond markets (priced for low inflation and low growth) and equity markets (priced for growth in corporate profits). The rebound in equity prices in October – when markets rose by some 5% – looks more like a technical rally than a reflection of any fundamental change in the economic backdrop. It is worth noting that on October 23<sup>rd</sup> the Chinese Central Bank again reduced interest rates by ¼%, and cut bank reserve requirements, to provide support for the property sector in China.
  
17. With the scope for increased geo-political tension in Syria and the Middle East, together with the subdued economic outlook, it is hard to envisage equities gaining further ground after their October rally.

**Peter Davies**  
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**November 2<sup>nd</sup>, 2015**

[All graphs supplied by Legal & General Investment Management]