ITEM NO:

	Pension Fund Sub-Committee 23rd February 2016 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity: Quarter to December 2015	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 December 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 increased in value by 4.2% from £634.4 to £661.2m during the quarter ended 31 December 2015. In the (calendar) year to 31 December 2015 the value of the fund has risen from £627.2m to £661.2m or by 5.2%

b) During the quarter the holdings in the Dimensional fund were sold. £34m of the proceeds were invested in the overseas Legal and General tracker fund and the remaining £365,081 is being held in cash.

c) Equities produced mixed performance in the quarter. The Legal and General UK index tracker increased in value by 3.3% whilst the UK smaller companies fund decreased in value by 2.1%. The Legal and General overseas tracker fund increased in value by £47.9m (including the £34m additional investment during the quarter).

d) Private equity was the worst performing asset class, with both the Capital Dynamics and Yorkshire funds decreasing in value (by 2.3% and 7.0% respectively).

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter to 31 December 2015

3.1 Having delivered losses for investors over the second and third quarters, global equity indices rebounded during the final quarter of 2015. Investor sentiment faced a number of challenges including geopolitical concerns and the mixed messages of recent economic and corporate data. However the key event was the Federal Reserve's decision to raise US interest rates for the first time in nearly a decade.

3.2 In the UK, equities rose over the quarter, driven primarily by large cap defensive stocks. In November, the bank of England indicated that interest rates might not rise until 2017 and lowered its UK inflation and growth forecasts for this year and next, blaming the strong pound and slowing expansion in emerging economies.

3.3 US stocks delivered positive returns for the quarter, with notable losses in the energy sector. The Federal Reserve expressed caution about inflation levels. It is expected that economic conditions will evolve in a manner that will warrant only gradual interest rate increases.

3.4 In Europe, GDP figures confirmed that Eurozone growth had slowed to 0.3% in the third quarter from 0.4% in the second. In December the ECB delivered a reduction in the deposit rate and an extension to the length of its QE programme.

3.5 Emerging markets continued to lag developed markets in the final quarter of 2015. Given the importance of US dollar flows for emerging market debt, accordingly the expected US interest rate hike at the start of December inevitably left to softening in emerging market performance. In China, industrial production improved to year-on-year growth of 6.2% from 5.6% in the previous period.

3.6 2015 was a strong year for property investments, with volumes 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.

3.8 A market review for the quarter ended 31 December 2015, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.9 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark 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 31 December 2015 compared to the benchmark

	31/12/2015						30/09/2015		
Asset Class	Market Value (£m)	% of Fund	Increase/ decrease (£m)	WM LA Average %	New Fund benchmark from July 2015 %	Variance: Actual vs New Benchmark %	Market Value (£m)	% of Fund	WM LA Average %
Fixed Income									
Henderson – Total Return Bond Fund	86.4	13.1	1.1	16.9	15.0	-1.9	85.3	13.4	16.9
Equities									
UK – Legal & General	87.7	13.3	3.3	21.0	0.0	13.3	84.4	13.3	21.4
UK - Smaller Companies Fund Henderson	26.7	4.0	-0.6	*	5.0	-1.0	27.3	4.3	*
O/seas – developed Legal & General	195.5	29.6	47.9	35.3	20.0	9.6	147.6	23.3	28.4
O/seas – emerging Dimensional	0	0.0	-32.7	2.9	0.0	0.0	32.7	5.2	3.1
Global Active Equities	0	0.0	0.0	0.0	10.0	-10.0	0.0	0.0	0.0
Global Active Equities	0	0.0	0.0	0.0	10.0	-10.0	0.0	0.0	0.0
Property									
Aviva	38.5	5.8	0.0	8.6	0.0	5.8	38.5	6.1	9.2
Private Equity									
Capital Dynamics	92.3	14.0	-2.2	4.6	10.0	4.0	94.5	14.9	4.6
Yorkshire Fund	0.8	0.1	-0.1	*	0.0	0.1	0.9	0.1	*
Infrastructure									
Alinda	30.8	4.7	0.7	0.9	8.0	-3.3	30.1	4.7	1.5
Capital Dynamics		0.0	0.0	0.0	0.0	0.0		0.0	0.0
Henderson PFI Fund II		0.0	0.0	0.0	0.0	0.0		0.0	0.0
Pooled Multi Asset									
Baillie Gifford DGF	68.8	10.4	1.2	2.1	21.0	-10.6	67.6	10.7	3.5
Cash	33.7	5.1	8.2	3.0	1.0	4.1	25.5	4.0	4.0
TOTAL	661.2	100.0	26.8		100.0	0.0	634.4	100.0	

3.10 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 December 2015.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS								Benchmark/Index Description
	Qtr Ending 31/12/15				Qtr Ending 30/09/15				
	Fund %	Benchmark %	Relative Return %	WM Local Auth %	Fund %	Benchmark %	Relative Return %	WM Local Auth %	
Fixed Income									
Henderson Total Return Bond Fund	1.3	1.0	0.3	-0.6	-1.2	1.5	-2.6	-0.8	Absolute Return 6% pa
Equities									
UK - Legal & General	4.0	4.0	0.0	3.7	-5.7	-5.7	0.0	-5.9	FTSE All Share
UK - Small Companies Henderson	-2.2	2.7	-4.9	*	0.0	-1.6	1.7	*	FTSE Small Cap
O'seas Developed - Legal & General	9.0	9.0	0.0	8.6	-4.8	-4.7	0.0	-6.1	FTSE Dev World ex UK
O'seas - Emerging Dimensional	0.0	0.0	0.0	4.9	-15.8	-14.8	-1.3	-13.4	MSCI Emerging Markets
Property									
Aviva Investors	0.0	2.9	-2.9	3.0	2.7	3.0	-0.3	3.0	IPD All Properties Index
Private Equity									
Capital Dynamics	*	*	*	*	*	*	*	*	Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*	*	*	*	*	*	Absolute Return 8% pa
Infrastructure									
Alinda Capital Partners	4.2	1.9	2.3	0.3	6.3	1.9	4.3	2.8	Absolute Return 8% pa
Pooled Multi Asset									
Baillie Gifford	2.5	1.0	1.5	1.0	-2.1	1.0	-3.1	-3.0	Base Rate + 3.5% pa
Cash	0	0.1	-0.1	0.8	1.9	0.1	0.8	*	Base Rate
Total					-1.3	-2.4	1.2		

Compliance with statutory investment limits

3.11 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 31 Dec 2015**	**Compliant Yes / No**
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	33%	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

3.12 The Brent Pension Fund has increased exposure in the Infrastructure fund. Significant capital call payments have been made over the past three years, the outstanding contractual commitments on existing investments follows:

	30 Jun 2015 £'000	**30 Sep 2015 £'000**	**31 Dec 2015 £'000**
Capital Dynamics	28,000	26,600	26,600
Alinda	2,000	3,000	20,600
Yorkshire Fund Managers	0	0	0
Total	**30,000**	**36,600**	**46,600**

3.13 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.

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

8.1 Henderson Investors – December 2015 quarterly report
Legal & General – December 2015 quarterly report
Dimensional Asset Management – December 2015 quarterly report
Baillie Gifford – December 2015 quarterly report

9. CONTACT OFFICERS

9.1 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

AllenbridgeEpic
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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q4 2015

25 January 2016

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BRENT COUNCIL PENSION FUND
Quarterly Review, October – December 2015

Report by the Independent Financial Adviser

Economy

1. There has been little change in the forecasts for GDP growth during the past three months, but the consequences of the long-heralded slowdown in the Chinese economy are beginning to dominate commodity markets, stock markets and currencies. It has been well known that China wanted to rebalance its economy away from capital investment in infrastructure and towards private consumption, and yet the reality of this policy appears to have taken investors by surprise.

(In the table below, bracketed figures show the forecasts three months ago)
[Source of estimates: The Economist, January 9th, 2016]

Consensus real growth (%)						**Consumer prices latest (%)**
	2012	**2013**	**2014**	**2015E**	**2016E**	
UK	-0.1	+1.7	+2.8	+2.4 (+2.5)	+2.2	+0.2 (CPI)
USA	+2.2	+1.9	+2.4	+2.5 (+2.5)	+2.6	+0.5
Eurozone	-0.5	-0.4	+0.8	+1.5 (+1.5)	+1.7	+0.2
Japan	+1.9	+1.7	+0.3	+0.6 (+0.7)	+1.1	+0.3
China	+7.8	+7.7	+7.4	+6.9 (+6.8)	+6.4	+1.5

2. On December 16th, the Federal Reserve finally raised its interest rate by 0.25% (to a range of 0.25 – 0.5%) but indicated that it expected to make only 'gradual' future increases. This mild language was initially well received by equity markets. The European Central Bank had earlier tightened the penalty interest rate on central bank deposits from -0.2% to -0.3%, and announced that quantitative easing of €600bn per month would be extended from September 2016 to March 2017.

3. The massacre of 130 people in Paris on November 13th by followers of Islamic State caused universal outrage and precipitated the decision by the British parliament to permit UK aircraft to extend their operations to Syria. International tension had already increased when a Russian passenger plane had been shot down shortly after taking off from Egypt in October, to be followed three weeks later by the downing of a Russian fighter jet which had allegedly entered Turkish airspace.

4. In the French regional elections in December, the Front National polled strongly in the first round, but then failed to win any of the 13 regions in the final vote, after a pact between the Socialist and Republican parties. In Spain the ruling People's Party failed to secure an overall majority in parliament after a strong showing by the anti-austerity Podemos and the liberal Ciudadanos parties. The make-up of the new Spanish government is still under discussion.

5. The most striking features of the UK Spending Review in November were the Chancellor's abandonment of plans to cut £4.4bn from tax credits for working people, and the maintenance of the police budget. Extra levies were announced on apprenticeships, on

stamp duty for second homes and buy-to-let purchases, as well as a 2% rise in Council Tax if used for additional spending on social care. The Public Sector Borrowing Requirement was forecast to be 3.9% of GDP in 2015-16, but to reach a *surplus* of 0.5% in 2019-20. The Chancellor's forecasts were helped by a £27bn revision in revenue and spending projections over the next five years by the Office for Budget Responsibility.

6. The South African President, Mr Zuma, caused consternation in markets in mid-December by suddenly firing his Finance Minister, Mr Nene, and replacing him with a financially inexperienced MP. Days later the president revoked this appointment and named Pravin Gordhan, who had served previously as Finance Minister. The rand has continued to weaken, nevertheless.

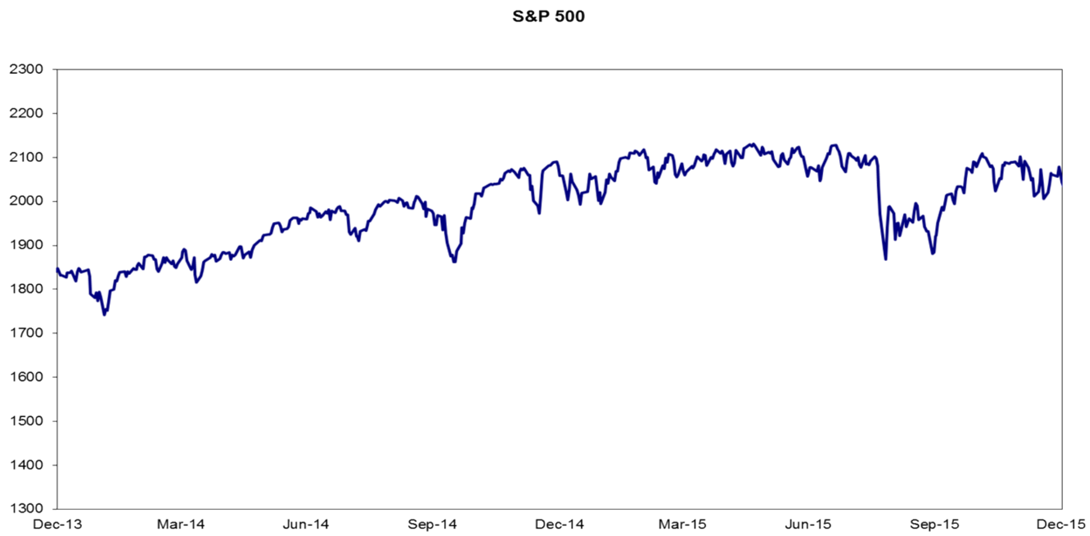
Markets

Equities

7. While the All-World Index recouped its third-quarter losses, despite a nervous patch in early December, this was almost entirely attributable to the strength of US equities and the dollar (see graph below). UK, European, Asia-Pacific and Emerging Markets all ended December lower than their end-June levels. For the year 2015, Emerging Markets lagged well behind the Developed Markets, affected variously by lower oil and commodity prices, the slowing of Chinese imports, and currency weakness following the slight depreciation of the Chinese yuan since August.

	Capital return (in £, %) to 31.12.15		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+7.6**	**+1.5**
54.8	FTSE All-World North America	+8.4	+3.1
8.8	FTSE All-World Japan	+12.3	+15.4
11.2	FTSE All-World Asia Pacific ex Japan	+7.8	-6.4
16.0	FTSE All-World Europe (ex-UK)	+5.6	+2.4
6.9	FTSE All-World UK	+3.0	-4.4
8.1	FTSE All-World Emerging Markets	+2.8	-12.9

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



8. Although all global industrial sectors recorded gains in the quarter, Basic Materials and Oil & Gas remained the laggards as commodity prices continued to fall. Healthcare was buoyed up by actual and prospective merger activity among the major pharmaceutical companies.

Capital return (in £, %) to 31.12.15		
Industry Group	**3 months**	**12 months**
Health Care	+9.9	+11.6
Consumer Services	+7.5	+10.2
Consumer Goods	+9.0	+8.8
Technology	+11.2	+7.1
FTSE All-World	**+7.6**	**+1.5**
Industrials	+8.7	+0.6
Telecommunications	+5.5	-0.2
Financials	+6.4	-1.6
Utilities	+3.1	-6.1
Basic Materials	+5.0	-14.6
Oil & Gas	+1.9	-19.0

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

9. The heavy representation of resource stocks in the FTSE 100 Index ensured that it once more lagged the medium- and small-cap sectors.

(Capital only %, to 31.12.15)	**3 months**	**12 months**
FTSE 100	**+ 3.0**	**- 4.9**
FTSE 250	**+ 4.5**	**+8.4**
FTSE Small Cap	**+ 3.4**	**+6.2**
FTSE All-Share	**+ 3.2**	**-2.5**

[Source: Financial Times]

Bonds

10. The prices of government bonds fell, with the result that yields in the major developed markets ended the year slightly above their end-2014 levels. The spreads on corporate bonds relative to government bonds remained much wider than at the start of 2014, driven mainly by the weakness in bonds issued by resource companies.

10-year government bond yields (%)					
	Dec 12	**Dec 13**	**Dec 2014**	**Sept 2015**	**Dec 2015**
US	1.76	3.03	2.17	2.06	2.27
UK	1.85	3.04	1.76	1.77	1.96
Germany	1.32	1.94	0.54	0.59	0.63
Japan	0.79	0.74	0.33	0.35	0.27

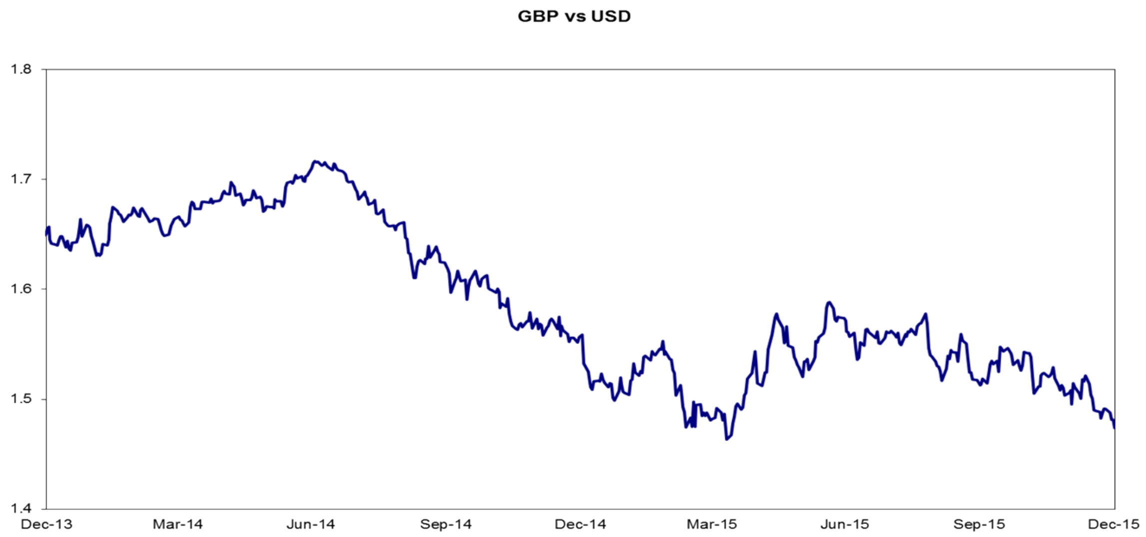
[Source: Financial Times]

Currencies

11. The US dollar gained ground steadily during the quarter as it became more likely that the Federal Reserve would raise interest rates - an expectation confirmed by the announcement on December 16th.

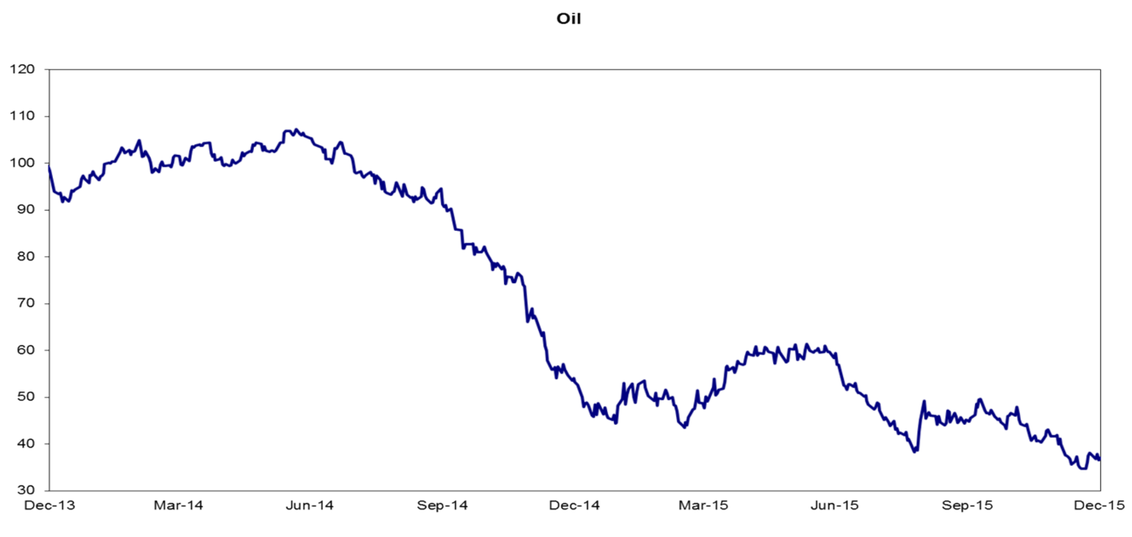
				£ move (%)	
	31.12.14	**30.9.15**	**31.12.15**	**3m**	**12m**
$ per £	1.559	1.515	1.474	-2.7	-5.5
€ per £	1.289	1.357	1.357	unch	+5.3
Y per £	186.9	181.4	177.3	-2.3	-5.1

[Source: Financial Times]



Commodities

12. The price of **oil**, as measured by Brent Crude, fell by over one-fifth from, $48.5 to $37.5, during the quarter as reduced demand was compounded by the failure of the OPEC oil producers to agree on any supply reductions. The slide in the oil price became even steeper in the New Year, and Brent Crude touched $28 in mid-January.



13. The **copper** price also fell, touching a 6-year low in late-November on reduced demand from China, which consumes over 40% of the world's copper output. **Gold** remained stable at around $1100/oz.

Property

14. UK Property continue to give a steady positive return, and although the All-Property Index gain of 13.8% for the year failed to match the 19.3% gain recorded in 2013, the 3-year total return for UK Property stands at an impressive 50%.

	3-month	12-month
All Property	**+3.1%**	**+13.8%**
Retail	**+2.3%**	**+ 8.9%**
Office	**+3.6%**	**+18.2%**
Industrial	**+3.8%**	**+17.3%**

[IPD Monthly Index of total returns, December 2015]

Outlook

15. 2016 has opened with a severe bout of nerves in world equity markets. The tone was set in the first week of January, when trading on the Shanghai market was suspended on two days because shares had fallen far enough to trigger the newly-introduced (and hastily abandoned) 'circuit-breakers'. As in August, this raised doubts about the competence of the Chinese authorities, and a small downward shift in the official rate for the yuan/dollar evoked further memories of last summer's problems.

16. Geo-political tension has escalated with the breaking off of diplomatic relations between Saudi Arabia and Iran after the Saudis executed a Shia cleric, and the reported testing of a hydrogen bomb by North Korea on January 6th did little to settle nerves. Sanctions on Iran were lifted after it satisfied that IAEA about the scaling down of its nuclear

programme; this raised the prospect of yet more oil being offered on world markets, further depressing the oil price.

17. In the first three weeks of January, UK Equities have lost 6%, while the major overseas markets are showing losses (in sterling terms) of 5-7%. The worries about a global economic slowdown have caused a flight to dollars and 'safe-haven' government bonds, with the result that the dollar has gained 4% against sterling and the yields on 10-year US government bonds have fallen by 0.21% in the past three weeks (with similar falls in gilt and bund yields).

18. The recent jitters in equity markets are similar in cause and scale to the events of Q3 2015, being ignited by worries about slowing growth in China. What is overlooked in many discussions is the fact that *global* GDP growth is likely to be as strong in 2016 as in 2015, thanks to the US and Continental Europe offsetting China's slight slowdown. The world is far from being in a deflationary spiral – of slowing economic activity – and the falling oil price ensures that consumer price rises will continue to run at well below trend levels.

19. As the positive aspects of these developments begin to be appreciated, I expect equity markets to hold above their January lows, even if short-term volatility continues to be a feature of day-to-day movements. I expect yields on medium-term government bonds to stay at current low levels, however, while inflation is so muted throughout most of the world.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

January 25th, 2016

[All graphs supplied by Legal & General Investment Management]