Brent	**Pension Fund Sub-Committee** 13 February 2018 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity: Quarter to September 2017	

1.0 SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 2017. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

1.2 In the third quarter (Q3) of the calendar year, the Fund increased by 1.9% (£15.1m) from £812.0m to £827.1m compared to a 1.2% (£9.3m) increase in the second quarter (Q2). Overall, the value of the fund has increased by 6.7% in the first nine months of the year.

1.3 1.5% of this quarter's increase relates to actual asset appreciation and the balance relates to contributions from capital calls. Although there has been a consecutive quarterly increase in the value of assets, performance for the quarter was below benchmark of 2%.

1.4 Further information on performance is provided in the main body of this report.

2.0 RECOMMENDATIONS

2.1 Members are asked to note the performance report and the independent financial adviser's investment reports which are attached to the main body of this report.

3.0 DETAIL

3.1 In November 2017, the official figures from the Office for National Statistics estimated that GDP increased by 0.4% in the three months to September 2017. This represented a slight increase compared to the 0.3% growth in the previous quarter of the same year.

3.2 UK growth has been steady over the last two quarters of the year with the service industry, including IT and retail, remaining the strongest contributor to GDP growth as it was in Q2. There was a drop in Construction output for the second consecutive quarter.

3.3 In Q3, the United Kingdom recorded the slowest growth (1.5%) among the Major Seven economies, including the Eurozone, which saw an average increase of 2.6%. UK growth has remained slow compared to growth in the Eurozone which almost doubled that of the UK in the third quarter of the year.

3.4 As reported to the committee in Q2, it was expected that a stronger than expected growth in the UK economy could raise the prospect of an interest rate rise as early as November. This was confirmed when the Bank of England raised the official bank rate from 0.25% to 0.5%, the first increase since July 2007

3.5 In his BBC interview on 2 November 2017, the Bank of England Governor, Mark Carney stated that the official interest rate is likely to rise twice more over the next three years. This potential increase in long-term interest rates is expected to reduce inflation rates and also reduce the overall budget deficit.

3.6 Table 1 summarises the Council's asset allocation as at Q3.

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

ASSET CLASS	30/06/2017 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	30/09/2017 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**92.7**		**0.6**	**93.3**	**11.3**	**15.0**	**-3.7**
Equities							
UK - L&G	108.5		2.4	110.9	13.4		
UK Smaller Cos - Henderson	31.6	0.1	0.6	32.3	3.9		
Overseas Developed - L&G	269.0		4.5	273.5	33.1		
Equities - Total	**409.1**	**0.1**	**7.5**	**416.7**	**50.4**	**45.0**	**5.4**
Diversified Growth Fund							
LCIV Baillie Gifford	77.2		0.5	77.7	9.4		
LCIV Ruffer	49.2		-0.4	48.8	5.9		
Total London CIV	**126.4**	**0.0**	**0.1**	**126.5**	**15.3**	**21.0**	**-5.7**
Property							
Europe - AVIVA	3.7	-1.5	1.2	3.4	0.4		
Property - Total	**3.7**	**-1.5**	**1.2**	**3.4**	**0.4**	**0.0**	**0.4**
Private Equity							
Capital Dynamics	77.7	-3.8	4.3	78.2	9.5		
Yorkshire	0.6		-0.1	0.5	0.1		
Private Equity Total	**78.3**	**-3.8**	**4.2**	**78.7**	**9.5**	**10.0**	**-0.5**
Infrastructure							
Alinda	32.4	-1.4	-1.4	29.6	3.6		
Capital Dynamics	9.0	0.0	-0.3	8.7	1.0		
Infrastructure Total	**41.4**	**-1.4**	**-1.7**	**38.3**	**4.6**	**8.0**	**-3.4**
Cash Deposits							
Other/Northern Trust	**60.4**	**9.8**	**0.0**	70.2	**8.5**	**1.0**	**7.5**
Grand Total	**812.0**	**3.2**	**11.9**	**827.1**	**100.0**	**100.0**	**0.0**

3.7 The total Fund value (including contributions) increased by £15.1m in this quarter. Assets rose by £11.9m compared to a £5.6m increase in Q2. This quarter has seen a significant gain of £11.7m from Listed and Private Equity. This follows a trend from Q2.

3.8 Investments in Infrastructure has seen a consecutive depreciation in value with a £3.1m drop in Q2 and £1.7m drop in Q3. Officers will continue to monitor performance in this area to inform future investment decisions.

3.9 There is a balance of £70.2m in cash deposits which is currently being invested in Money Market Funds and short term loans to other Local Authorities for interest returns. This amount of cash is principally being held for the following reasons:

3.9.1 Cash is required to fund transfer values in relation to the College of North West London, as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This transfer was originally planned for January 2018 however this has been pushed back to early March 2018.

3.9.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments.

3.10 The table below illustrates the Funds outstanding contractual commitments in Private Equity and Infrastructure investments.

Table 2: Outstanding contractual commitments on existing investments

	30 Jun 2017	**30 Sep 2017**
	£'m	**£'m**
Capital Dynamics	18.7	17.8
Alinda	22.8	20.1
Total	**41.5**	**37.9**

3.11 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

3.12 The fund realised a complete sale of the UK property investments in quarter 4 of 2016/17. Subject to market conditions, the European property investments are also planned to be run down in 2017/18.

3.13 The Fund is monitoring developments and the opening of investment opportunities on the CIV platform. This is with a view to transitioning assets across as soon as there are suitable sub-funds that are in line with the Fund's investment and asset allocation strategy. While the Fund awaits decisions on investment managers available through the CIV, an on-going review is being carried out to update or refine the current asset allocation.

3.14 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 3 sets out returns for the periods to 30 September 2017.

Table 3: Q3 Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 30/06/17			Qtr Ending 30/09/17			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
Fixed Income							
Henderson Total Return Bond Fund	1.6	1.0	0.6	0.7	1.0	-0.3	Absolute Return 4% pa
Equities							
UK - Legal & General	1.4	1.4	0.0	2.2	2.1	0.1	FTSE All Share
UK - Small Companies Henderson	8.1	2.9	5.2	2.2	3.5	-1.3	FTSE Small Cap
O'seas Developed - Legal & General	0.5	0.5	0.0	1.7	1.6	0.1	FTSE Dev World ex UK
European Property							
Aviva Investors	9.4	2.3	7.1	36.0	2.4	33.6	IPD All Properties Index
Private Equity							
Capital Dynamics	*	*	*	*	*	*	
Yorkshire Fund Managers	*	*	*	*	*	*	
Infrastructure							
Alinda Capital Partners	-1.8	1.9	-3.7	-4.3	1.9	-6.2	Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	
Pooled Multi Asset							
Baillie Gifford	1.8	1.0	0.8	0.6	0.9	-0.3	Base Rate + 3.5% pa
Ruffer	-0.4	1.0	-1.4	-0.7	0.9	-1.6	Base Rate + 3.5% pa
Cash	0	0.1		0	0.1		Base Rate
Total	**0.7**	**1.4**	**-0.7**	**1.5**	**2.0**	**-0.5**	

3.15 **Fixed Income**

The Henderson Bond Fund saw an appreciation of £0.6m in the quarter, although this represented a lower than expected increase compared to the benchmark figures.

The increase in value was mainly due to high yield bonds and emerging market bonds. In addition to this, on-going search for yield by investors fuelled demand for corporate bonds which out-performed government bonds.

3.16 **Equities**

Both UK and overseas Legal & General funds have performed in line with benchmark figures as they are tracker funds. In contrast to Q2, Henderson Small-caps has fallen below the benchmark, with an appreciation of £0.6m, compared to a £2.3m appreciation in Q2 and a £1.2m appreciation in Q1. Performance in this area has been volatile and has been below benchmark for six out of the last ten quarters. Officers will continue to monitor this fund to inform decisions on asset allocation later this year.

3.17 **European Property**
Similar to Q1 and Q2, Aviva has considerably out-performed the benchmark this quarter. However, it is worth noting that valuations of real estate assets are inherently uncertain and sometimes are subject to a lack of comparable transactions for appraisers to consider.

This fund was placed into Liquidation on 31 December 2017 and is due to terminate in December 2018. The Fund will continue to make capital distributions in 2018 when the remaining 6 underlying funds sell their last assets and distribute sale proceeds.

3.18 **Private Equity**
Performance of Capital Dynamics investments are not analysed in this manner because they are private equity, as measuring performance against public market indices can be misleading. This is planned to be rectified and officers are seeking to find an alternative comparison methodology.

It is worth noting that the Fund's holdings in these investments are very mature and approaching the end of the investment period; therefore, more cash is being distributed to investors as assets are sold.

3.19 **Infrastructure**
This quarter has seen a third consecutive drop in value, with a depreciation of £1.4m. The fall in value has continued to reduce the overall asset allocation which currently sits at 4.6% compared to a target allocation of 8%.
Infrastructure investments are by their nature volatile in the short term and it is expected that over the long term the investment will perform well against the benchmark.

3.20 **Pooled Multi Asset**
Baillie Gifford has seen a drop in performance this quarter compared to benchmark figures. However, similar to the previous quarters, the fund has continued to grow, primarily due to continued positive performance in investment markets.

Ruffer joined the fund in March 2017. As in Q2, performance in Q3 was below benchmark. The negative performance was linked to concerns about the possibility of a rise in the official interest rate as the Central Bank was pondering higher interest rates as inflation increased. To improve future performance, Ruffer will be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

3.21 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. In 2016 the previous restrictions that applied since 2009 have been removed. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers and the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

Table 4: Compliance with Investment limits

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 30 Sep 2017	Compliant Yes / No
Contributions invested in any single partnership	5%	4%	Yes
Contributions invested in partnerships	30%	14%	Yes
Cash deposits	10%	8%	Yes
Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%	11%	Yes
Total investment in illiquid assets	30%	15%	Yes

4.0 FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report.

5.0 DIVERSITY IMPLICATIONS

5.1 None.

6.0 STAFFING IMPLICATIONS

6.1 None.

7.0 LEGAL IMPLICATIONS

7.1 None.

8.0 BACKGROUND INFORMATION

8.1 Henderson Investors – September 2017 quarterly report
Legal & General – September 2017 quarterly report
Northern Trust Performance Report – September 2017
Websites: https://www.ons.gov.uk, www.oecd.org

9.0 CONTACT OFFICERS

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2017

11th October 2017

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BRENT COUNCIL PENSION FUND
Quarterly Review, July – September 2017
Report by the Independent Financial Adviser

Economy

1. The forecast growth rate for the UK economy in 2017 has been revised downwards to 1.5% after sluggish growth in the second quarter. Meanwhile, forecast growth rates in the other developed regions have been maintained or revised upwards.

   (In the table below the bracketed figures show the forecasts made in August)

[Source of estimates: The Economist, October 7th 2017]

Consensus real growth (%)						Consumer prices latest (%)
	2014	**2015**	**2016**	**2017E**	**2018E**	
UK	+2.8	+2.3	+2.0	+1.5 (+1.6)	+1.3	+2.9(CPI)
USA	+2.4	+2.4	+1.6	+2.2 (+2.2)	+2.3	+ 1.9
Eurozone	+0.8	+1.5	+1.6	+2.1 (+1.9)	+1.9	+ 1.5
Japan	+0.3	+0.6	+0.9	+1.5 (+1.3)	+1.2	+ 0.6
China	+7.4	+6.9	+6.7	+6.8 (+6.7)	+6.4	+ 1.8

2. The Bank of England hinted that UK interest rates could rise before the end of 2017, while the US Federal Reserve is to start reducing its balance sheet by not re-investing the proceeds of maturing bonds, and is expected to increase rates again in December. The European Central Bank deferred a decision on changing its quantitative easing policy until its October meeting.

3. On September 22nd, in a speech in Florence, Theresa May set out more details of the UK's approach to the Brexit negotiations, but discordant voices within her Cabinet, and a troubled Conservative Party conference, have created renewed uncertainty about her tenure as Prime Minister.

4. In the German Federal elections on September 24th, Angela Merkel won a fourth term as Chancellor, but her CDU party's share of the vote declined sharply, and the extremist AfD party won 13% of the votes. She must now seek a coalition with the Greens and the FDP, after the SPD withdrew as a coalition partner. In Japan, Prime Minister Abe has called a snap election for October 22nd.

5. Tensions between North Korea and the United States escalated after North Korea carried out several missile tests, and President Trump responded with bellicose statements. Domestically, Trump has provoked more controversy with his equivocal comments after the rallies in Charlottesville, and disbanded two business advisory councils when members began to resign in protest at his remarks. Late in September, the Republicans published a tax reform plan, including reductions in corporate tax rates, which will now be debated in Congress.

Markets

Equities

6. For the second successive quarter, equity markets were little changed. The UK market continues to deliver a return significantly below that of overseas equity markets, while Continental Europe has been by far the strongest region during the past year.

	Capital return (in £, %) to 30.9.17		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+1.3**	**+12.7**
54.2	FTSE All-World North America	+0.9	+12.6
8.3	FTSE All-World Japan	+0.1	+9.3
12.2	FTSE All-World Asia Pacific ex Japan	+0.7	+12.3
16.4	FTSE All-World Europe (ex-UK)	+3.6	+18.9
6.2	FTSE All-World UK	+0.8	+6.9
9.6	FTSE All-World Emerging Markets	+3.3	+13.2

[Source: FTSE All-World Review, September 2017]

7. The rise in the price of oil, and the improving outlook for global economic growth boosted the Oil & Gas and Basic Materials sectors, while most other sectors showed little change over the quarter.

	Capital return (in £, %) to 30.9.17		
Weight %	**Industry Group**	**3 months**	**12 months**
13.0	Technology	+4.3	+22.3
22.9	Financials	+1.6	+20.4
4.9	Basic Materials	+6.2	+20.3
13.0	Industrials	+2.3	+17.0
100.0	**FTSE All-World**	**+1.3**	**+12.7**
13.0	Consumer Goods	-0.9	+7.7
10.5	Health Care	-1.0	+6.8
10.2	Consumer Services	-2.2	+6.5
3.2	Utilities	-0.2	+4.5
6.2	Oil & Gas	+5.2	+1.5
3.1	Telecommunications	-0.7	-3.6

[Source: FTSE All-World Review, September 2017]

8. The mid- and small-cap sectors of the UK market have out-performed the FTSE 100 over the past quarter and 12 months.

(Capital only%, to 30.9.17)	**3 months**	**12 months**
FTSE 100	**+ 0.8**	**+ 6.9**
FTSE 250	**+ 2.8**	**+11.2**
FTSE Small Cap	**+ 2.3**	**+14.8**
FTSE All-Share	**+ 1.2**	**+ 7.8**

Bonds

9. As was the case in the second quarter, there was very little net change in the yields on medium-term government bonds in the major markets.

10-year government bond yields (%)					
	Dec '14	**Dec 2015**	**Dec 2016**	**June 2017**	**Sept 2017**
US	2.17	2.27	2.46	2.28	2.32
UK	1.76	1.96	1.24	1.33	1.41
Germany	0.54	0.63	0.11	0.47	0.47
Japan	0.33	0.27	0.04	0.09	0.05

Currencies

10. The dollar and the yen were the weaker currencies during the quarter, while the pound kept pace with the euro. At one stage the pound reached $1.36 – its highest level against the dollar since the EU referendum – but in early October it retreated to $1.31.

				£ move (%)	
	30.9.16	**30.6.17**	**30.9.17**	**3m**	**12m**
$ per £	1.299	1.299	1.342	+ 3.3	+ 3.3
€ per £	1.156	1.139	1.135	- 0.4	- 1.9
Y per £	131.5	146.0	151.0	+ 3.4	+14.8

Commodities

11. The price of Brent crude rose by over 15% during the quarter to reach $57 per barrel, its highest level for two years. This has been the result of a number of factors – the maintenance of the production curbs announced by OPEC countries and Russia in November 2016; the threat by President Erdogan of Turkey's to turn off an Iraqi pipeline, and the interruptions to refining operations in Texas caused by Hurricane Irma.

Outlook

12. Equity markets have edged gradually upwards despite geo-political concerns surrounding developments in North Korea and the Middle East. The impending interest rate rises in the US and UK, together with the tapering of quantitative easing by the US Fed – and possibly by the European Central Bank – are likely to act as a brake on equity markets as the cost of borrowing rises.

13. Similarly, government bond market yields are likely to rise in response to higher short-term rates, unless they become 'safe havens' in the event of political crisis, or if global economic growth begins to slow down. In either of these situations, equities can be expected to weaken significantly.

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q4 2017

22nd January 2018

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BRENT COUNCIL PENSION FUND
Quarterly Review, October - December 2017

Report by the Independent Financial Adviser

Economy

1. Economic growth in the 3rd quarter has exceeded expectations in most regions, and forecasts for 2018 have also been upgraded.

   (In the table below the bracketed figures show the forecasts made in October)

[Source of estimates: The Economist, January 13th 2018]

Consensus real growth (%)						**Consumer prices latest (%)**
	2014	**2015**	**2016**	**2017E**	**2018E**	
UK	+2.8	+2.3	+2.0	+1.6 (+1.5)	+1.4	+3.0(CPI)
USA	+2.4	+2.4	+1.6	+2.3 (+2.2)	+2.6	+ 2.2
Eurozone	+0.8	+1.5	+1.6	+2.3 (+2.1)	+2.3	+ 1.4
Japan	+0.3	+0.6	+0.9	+1.7 (+1.5)	+1.5	+ 0.5
China	+7.4	+6.9	+6.7	+6.8 (+6.8)	+6.5	+ 1.8

2. The Bank of England announced a ¼% rise in interest rate on November 2nd, while the US Federal Reserve is to start reducing its balance sheet by not re-investing the proceeds of maturing bonds. As expected, the Fed increased rates by ¼% in December and three more such rises are thought likely to take place in 2018. The European Central Bank is to halve its level of monthly bond purchases to €30bn from January 2018, with no specified end-date to the programme.

3. In the UK Budget on November 22nd, the official forecasts for UK GDP growth were revised down to 1.5% in 2017, and in the following four years to between 1.3% and 1.6% per annum. The Budget deficit will decline gradually from the current 2.4% of GDP to 1.1% of GDP in '22/'23. Public sector net debt is 86.5% of GDP in this fiscal year and will still be almost 80% of GDP in '22/'23.
4. Specific measures included the removal of stamp duty for most first-time buyers, funding to support the housebuilding sector, with penalties on the hoarding of undeveloped land, and more spending on infrastructure. Overall, the Budget contained £7bn of net tax cuts and £18bn of additional spending over the next six years.

5. The United States Congress passed the much-vaunted tax reform bill in December, which, amongst other measures, substantially cut the rate of Corporation Tax and also cut the top rate of Income Tax. While the US equity market welcomed the bill, the political impact of its apparent generosity to the wealthiest remains to be seen.

6. The **UK**'s negotiations with the EU over Brexit were allowed to proceed to the next stage, while Mrs May had to deal with three resignations from her Cabinet towards the end of the year, and announced a reshuffle in January. In **Germany** the CDU/CSU are moving closer to a renewal of their 'grand coalition' with the SPD, but the terms still need to be ratified by the SPD membership. Tensions in **Spain** increased after the call for independence from

Catalonia; Madrid dissolved the regional parliament and assumed direct rule of the region pending a December election, which produced a narrow majority for the pro-independence parties. In **Japan**, Prime Minister Abe called a snap election for October 22nd in which he gained an important two-thirds majority in the Lower House.

Markets

Equities

7. Shares ended the year strongly, with the passing of the US Tax Reform Bill providing an extra fillip in the final weeks of December. For the full year, the UK market lagged all overseas regions, as it had done in 2016.

	Capital return (in £, %) to 31.12.17		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+4.6**	**+11.1**
54.2	FTSE All-World North America	+5.1	+9.1
8.6	FTSE All-World Japan	+7.7	+12.1
12.7	FTSE All-World Asia Pacific ex Japan	+7.0	+19.7
15.7	FTSE All-World Europe (ex-UK)	+0.2	+13.4
6.1	FTSE All-World UK	+4.2	+7.5
10.0	FTSE All-World Emerging Markets	+5.8	+17.6

[Source: FTSE All-World Review, December 2017]

8. With the Technology and Basic Materials sectors again advancing strongly, it has been another year when 'growth' stocks have outpaced 'value' stocks. Oil & Gas, meanwhile, had a dull year after gaining nearly 50% in 2016.

	Capital return (in £, %) to 31.12.17		
Weight %	**Industry Group**	**3 months**	**12 months**
13.5	Technology	+8.0	+26.2
4.8	Basic Materials	+7.2	+18.0
12.9	Industrials	+4.2	+14.4
12.9	Consumer Goods	+4.1	+11.3
100.0	**FTSE All-World**	**+4.6**	**+11.1**
22.8	Financials	+4.6	+10.6
10.6	Consumer Services	+7.4	+9.6
10.2	Health Care	+0.6	+8.6
3.1	Utilities	-1.2	+2.3

6.2	Oil & Gas	+5.3	-4.8
3.0	Telecommunications	+0.0	-5.8

[Source: FTSE All-World Review, December 2017]

9. The mid- and small-cap sectors of the UK market have out-performed the FTSE 100 over the past 12 months, although they all performed similarly during the 4th quarter.

(Capital only%, to 31.12.17)	**3 months**	**12 months**
FTSE 100	**+4.3**	**+ 7.6**
FTSE 250	**+4.3**	**+14.7**
FTSE Small Cap	**+3.5**	**+14.9**
FTSE All-Share	**+4.2**	**+ 9.0**

[Source: Financial Times]

Bonds

10. The yield on US Treasuries edged upwards on the back of strong US economic growth and the December interest rate rise, but, as with the UK gilt yield, ended the year at its end-2016 level. With the recovery in Eurozone economic growth, Bund yields rose during the year from their exceptionally low level of December 2016.

10-year government bond yields (%)					
	Dec '14	**Dec 2015**	**Dec 2016**	**Sept 2017**	**Dec 2017**
US	2.17	2.27	2.46	2.32	2.43
UK	1.76	1.96	1.24	1.41	1.23
Germany	0.54	0.63	0.11	0.47	0.43
Japan	0.33	0.27	0.04	0.05	0.05

[Source: Financial Times]

Currencies

11. The dollar and the yen continued to weaken during the quarter against the pound and the euro. In January 2018 the pound has reached $1.38 – its highest level since the EU Referendum in June 2016.

				£ move (%)	
	31.12.16	**30.9.17**	**31.12.17**	**3m**	**12m**
$ per £	1.236	1.342	1.353	+0.8	+9.5
€ per £	1.172	1.135	1.127	-0.7	-3.8
Y per £	144.1	151.0	152.4	+0.9	+5.8

[Source: Financial Times]

Commodities

12. The price of Brent crude continued its third-quarter strength, rising from $57 to $67 per barrel, its highest level for three years. Factors behind this rise include fears about the political unrest in Iran (the 3rd-largest oil producer in OPEC), increasing demand for oil as global growth accelerates, and the continuation of supply restrictions agreed between OPEC, Russia and other big producers.

Outlook

13. Although equity markets have continued to rise in recent months, encouraged by the positive outlook for growth in most regions, valuations as a multiple of profits are reaching historically high levels. Nearly two years have passed since the last significant setback in equity markets, and it would be rash to assume that this period of steady gains can continue for much longer – particularly when viewed against a background of rising interest rates, reducing central bank bond-buying programmes and the ever-present geo-political threats.

14. US government 10-year bond yields have moved above 2.5% in January, which could presage similar moves in other government bond markets and impart a negative influence to equity valuations as future cashflows are discounted at higher long-term interest rates.

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