

 <b>Brent</b>	<b>Pensions Board</b> 24 July 2018  <b>Report from the Chief Finance Officer</b>
For Information	Wards Affected: ALL
<b>Quarterly monitoring report on fund activity:  Quarter to March 2018</b>	

## 1.0 SUMMARY

- 1.1 This report provides a summary of the Fund's activity during the quarter ended 31 March 2018. 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) In the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m.
- b) The rate of return for the financial year 2017/18 has been calculated by the Fund's custodian, Northern Trust, as +1.5%. However, due to a timing difference of valuations, the actual rate of return was +2%. Further information about this can be found in section 3.12 of this report.
- c) During the quarter ending 31 March 2018, the Fund decreased in value by 2.9% (£24.8m) from £855m to £830.2m primarily due to falls in the value of UK and Global Equities. By contrast there was an appreciation in value in each of the previous three quarters.

- 1.2 Further analysis on the performance of each fund is provided in the main body of this report.

## 2.0 RECOMMENDATIONS

- 2.1 Members are asked to note the Independent Financial Adviser's investment report and the Brent Pension Fund quarterly performance report.

# Quarterly Review – Jan to Mar 2018

Peter Davies – independent financial adviser

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**BRENT COUNCIL PENSION FUND**  
**Quarterly Review, January - March 2018**  
**Report by the Independent Financial Adviser**

**Economy**

1. While all regions are expecting good growth in 2018, forecasts have moderated slightly since January, with falls in industrial production reported in the Eurozone, weaker than expected employment growth in the US and signs of softening in China.  
(In the table below the bracketed figures show the forecasts made in January)

<b>Consensus real growth (%)</b>						<b>Consumer prices latest (%)</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	
<b>UK</b>	+2.3	+2.0	+1.6	+1.5 (+1.4)	+1.5	+2.5(CPI)
<b>USA</b>	+2.4	+1.6	+2.3	+2.8 (+2.6)	+2.5	+ 2.4
<b>Eurozone</b>	+1.5	+1.6	+2.3	+2.4 (+2.3)	+2.1	+ 1.4
<b>Japan</b>	+0.6	+0.9	+1.7	+1.5 (+1.5)	+1.2	+ 1.5
<b>China</b>	+6.9	+6.7	+6.8	+6.6 (+6.5)	+6.4	+ 2.1

[Source of estimates: The Economist, April 14<sup>th</sup> 2018]

2. In March the Federal Reserve raised US interest rates by a further 0.25%, to the 1.5 – 1.75% range. Two of the nine members of the UK Monetary Policy Committee voted for a rate rise in March, but the recent slowing of the UK economy has made such a rise less likely in the near term. The UK Financial Statement in March included an improved level of public borrowing in the current tax year, and hinted at public spending increases in the Autumn Budget.

3. President Trump's pronouncements have continued to make headlines. After announcing planned tariffs on imported steel and aluminium (later modified to exclude several nations), he then proposed tariffs on certain Chinese imports, to which the Chinese government responded with its own list of US imports to be penalised. The US administration has seen the replacement of the Secretary of State, the Chief Economic Adviser and the National Security Adviser during the quarter, while President Trump is also scheduled to meet the President of North Korea in May.
4. After the poisoning of a former Russian agent and his daughter in Salisbury on March 3<sup>rd</sup>, many countries emulated the British government's action in expelling Russian diplomats from their embassies. In April US, French and UK forces launched co-ordinated air attacks on Syrian chemical weapons bases after the Syrian government had been accused of using such weapons against the inhabitants of Douma.
5. In Germany, members of the opposition SPD voted in favour of the renewal of a coalition with the CDU/CSU, allowing Chancellor Merkel to remain in office, while the shape of the Italian government remains uncertain after the General Election of March 4<sup>th</sup> produced big gains for the Five Star Movement. In South Africa Cyril Ramaphosa replaced Jacob Zuma as President.

## Markets

### Equities

6. Overseas equity markets started the year very strongly - US markets had risen 7% by January 26<sup>th</sup> – but the release of a US hourly wages figure of +2.9% ignited fears of higher inflation, and within two weeks most markets had fallen by 10%. After sharp swings in February and March, they ended the quarter close to their early- February lows.

The performance of the UK equity market continues to lag behind all overseas regions, while the 5% fall in the All-World Index made this the worst quarter for global equities since Q3 2015.

<b>Capital return (in £, %) to 31.3.18</b>			
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>- 5.0</b>	<b>+ 0.4</b>
54.0	FTSE All-World North America	-5.0	- 0.7
8.7	FTSE All-World Japan	-3.5	+ 5.3
12.9	FTSE All-World Asia Pacific ex Japan	-4.8	+ 2.9
15.8	FTSE All-World Europe (ex-UK)	- 4.9	+ 1.4
5.9	FTSE All-World UK	- 8.2	- 3.9
10.5	FTSE All-World Emerging Markets	- 2.5	+ 5.7

[Source: FTSE All-World Review, March 2018]

6. Technology was the most resilient sector during the quarter, and for the year, although it has recently been hit by the revelations of the disclosure of personal details of Facebook users.

<b>Capital return (in £, %) to 31.3.18</b>			
<b>Weight %</b>	<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
14.1	Technology	-1.0	+12.3
13.1	Industrials	-5.0	+2.7
4.6	Basic Materials	-7.8	+2.1
22.7	Financials	-4.9	+1.3
10.8	Consumer Services	-3.3	+0.7
<b>100.0</b>	<b>FTSE All-World</b>	<b>-5.0</b>	<b>+0.4</b>
10.2	Health Care	-4.9	-2.8
12.6	Consumer Goods	-6.8	-3.0
6.1	Oil & Gas	-7.8	-7.3
3.0	Utilities	-5.6	-8.2
2.8	Telecommunications	-9.4	-14.8

[Source: FTSE All-World Review, March 2018]

7. UK shares started the year on a weak note, because of sterling's strength and Brexit uncertainties, and fell further during the period of heightened volatility in February and March. The mid- and small-cap sections of the market again out-performed the large-caps.

<b>(Capital only%, to 31.3.18)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>- 8.2</b>	<b>-2.8</b>
<b>FTSE 250</b>	<b>- 6.1</b>	<b>+2.6</b>
<b>FTSE Small Cap</b>	<b>-5.4</b>	<b>+3.0</b>
<b>FTSE All-Share</b>	<b>-7.8</b>	<b>-2.4</b>

[Source: Financial Times]

The All-Share Index ended the quarter 9% below the high it had reached in December.

UK FTSE All-Share



Bonds

- The yield on US Treasuries rose again during the quarter, as economic data showed rising levels of wage growth and the Fed Funds rate was increased. Elsewhere there was little change in the main sovereign bond yields.

<b>10-year government bond yields (%)</b>					
	<b>Dec '14</b>	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>Dec 2017</b>	<b>Mar 2018</b>
<b>US</b>	2.17	2.27	2.46	2.43	2.75
<b>UK</b>	1.76	1.96	1.24	1.23	1.35
<b>Germany</b>	0.54	0.63	0.11	0.43	0.50
<b>Japan</b>	0.33	0.27	0.04	0.05	0.04

[Source: Financial Times]

The 10-year Gilt yield remains below 1.5%

Generic UK 10 Year Yield



## Currencies

9. Sterling strengthened against the dollar and, to a lesser extent, the euro, but gave back some of its recent gains against the yen. The dollar's trade-weighted index against other currencies has fallen by 7.5% during the past year. Since the start of April, however, the pound has weakened to \$1.35, as a rise in UK interest rates became unlikely after the release of slowing Q1 GDP data for the UK.

				£ move (%)	
				3m	12m
	<b>31.3.17</b>	<b>31.12.17</b>	<b>31.3.18</b>		
\$ per £	1.251	1.353	1.403	+3.7	+12.2
€ per £	1.189	1.127	1.141	+1.2	-4.0
¥ per £	139.3	152.4	149.2	-2.1	+7.1

[Source: Financial Times]

GBP vs USD



## Commodities

10. . The oil price edged higher during the quarter, and in April the price of Brent crude went over \$70 per barrel, its highest level since 2015. The price of Copper has continued rising, and has now gained 60% in the past two years. Metals prices surged higher in April after the US imposed sanctions on a number of Russian natural resource companies.

Oil



## Property



11. In the quarter, the UK Commercial Property market was muted in the Office and Retail sectors, but Industrials continued to grow strongly, and have given a total return of over 20% in the past year.

	<b>3-month (%)</b>	<b>12-month</b>
<b>All Property</b>	<b>+ 2.3</b>	<b>+11.3</b>
<b>Retail</b>	<b>+ 1.2</b>	<b>+ 7.1</b>
<b>Office</b>	<b>+ 1.9</b>	<b>+ 8.6</b>
<b>Industrial</b>	<b>+ 4.3</b>	<b>+21.6</b>

[Source: MSCI UK Monthly Index of total returns, March 2018]

## **Outlook**

12. The prospect of a trade war between the US and China has unsettled equity markets, although there is scope for negotiation before any tariffs come into force. Russia's relations with the West have also deteriorated, after the responses to the Salisbury poisoning and the chemical weapon attack in Syria. In the background, temporarily, are the future of the Iran Agreement and the consequences of the North-South Korea summit, so there are numerous issues which could further destabilise equity markets.
13. The yield on the 10-year US Treasury bond has edged up to 3% in April, partly on fears of rising inflation, and partly on consideration of the enlarged US fiscal deficit to be funded in the bond market without the assistance of the Federal Reserve.
14. The long-awaited return of volatility is expected to remain a feature of equity markets in the coming months, and the geo-political uncertainties are likely to weigh heavily on markets.

**Peter Davies**

**Senior Adviser – MJ Hudson Investment Advisers\***



8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | [London@MJHudson.com](mailto:London@MJHudson.com) | [mjhudson.com](http://mjhudson.com) | [mjhudson-allenbridge.com](http://mjhudson-allenbridge.com)

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### 3.0 Quarter ending 31 March 2018 Performance

3.1 Table 1 summarises the change in the Council's asset allocation in Q4 of 2017/18 fiscal year.

**Table 1: Asset allocation as at 31<sup>st</sup> March 2018 compared to the benchmark**

ASSET CLASS	31/12/2017 Value (£m)	Net Investment Contribution / Distribution Value (£m)	Appreciation (£m)	31/03/2018 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
<b>Fixed Income</b>							
Henderson-Total Return Bond Fund	94.1		0.0	94.1	11.3	15.0	-3.7
<b>Equities</b>							
UK - L&G	116.4		-8.0	108.4	13.1		
UK Smaller Cos - Henderson	33.7	0.1	-2.1	31.6	3.8		
Overseas Developed - L&G	287.1		-12.8	274.3	33.0		
<b>Equities - Total</b>	<b>437.1</b>	<b>0.1</b>	<b>-22.9</b>	<b>414.3</b>	<b>49.9</b>	<b>45.0</b>	<b>4.9</b>
<b>Diversified Growth Fund</b>							
LCIV Baillie Gifford	79.1		-3.6	75.5	9.1		
LCIV Ruffer	50.1		-1.3	48.8	5.9		
<b>Total London CIV</b>	<b>129.2</b>	<b>0.0</b>	<b>-4.9</b>	<b>124.3</b>	<b>15.0</b>	<b>21.0</b>	<b>-6.0</b>
<b>Property</b>							
Europe - AVIVA	2.6	-1.5	0.9	2.1	0.2		
<b>Property - Total</b>	<b>2.6</b>	<b>-1.5</b>	<b>0.9</b>	<b>2.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.2</b>
<b>Private Equity</b>							
Capital Dynamics	70.3	-3.8	-2.0	64.5	7.8		
Yorkshire	0.5		0.0	0.5	0.1		
<b>Private Equity Total</b>	<b>70.9</b>	<b>-3.8</b>	<b>-2.0</b>	<b>65.1</b>	<b>7.8</b>	<b>10.0</b>	<b>-2.2</b>
<b>Infrastructure</b>							
Alinda	28.5	-1.4	-2.2	24.9	3.0		
Capital Dynamics	8.6	0.0	-0.2	8.4	1.0		
<b>Infrastructure Total</b>	<b>37.1</b>	<b>-1.4</b>	<b>-2.4</b>	<b>33.3</b>	<b>4.0</b>	<b>8.0</b>	<b>-4.0</b>
<b>Cash Deposits</b>							
Other/Northern Trust	84.0	9.8	3.2	97.0	11.7	1.0	10.7
<b>Grand Total</b>	<b>855.0</b>	<b>3.2</b>	<b>-27.9</b>	<b>830.2</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

3.2 The total Fund value (including contributions) decreased by £24.8m in this quarter, compared to a £27.9m increase in the previous quarter. There was a consistent reduction in the value of the fund across all asset categories with the most significant in Equities which fell in value from £437.1m to £414.3m; a reduction of £22.8m.

3.3 There is a balance of £97.0m in cash deposits which is currently being invested in Money Market Funds and short term loans to other Local Authorities to generate as much interest as possible. This amount of cash is principally being held for the following reasons:

3.3.1 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 delayed by the LPFA to July 2018.

3.3.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments. (See table 5 in section 3.15).

3.4 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund as illustrated in the two tables below.

3.5 Table 2 sets out returns for the periods to 31 March 2018 compared to the previous quarter.

**Table 2: Q4 Investment Returns in Individual Markets**

Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 31/12/17			Qtr Ending 31/03/18			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
<b>Fixed Income</b> Henderson Total Return Bond Fund	0.8	1.0	-0.2	0.1	1.0	-0.9	Absolute Return 4% pa
<b>Equities</b> UK - Legal & General	5.0	5.0	0.0	-6.9	-6.9	0.0	FTSE All Share
UK - Small Companies Henderson	4.0	2.7	1.3	-6.2	-6.5	0.3	FTSE Small Cap
O'seas Developed - Legal & General	5.0	5.0	0.0	-4.5	-4.5	0.0	FTSE Dev World ex UK
<b>European Property</b> Aviva Investors	17.6	3.1	14.5	-21.7	1.9	-23.6	IPD All Properties Index
<b>Private Equity</b> Capital Dynamics	3.5	1.9	1.6	0.54	1.9	-1.4	Absolute Return 8% pa
Yorkshire Fund Managers	0	1.9	-1.9	0	1.94	-1.9	Absolute Return 8% pa
<b>Infrastructure</b> Alinda Capital Partners	-3.9	1.9	-5.8	-12.4	1.9	-14.3	Absolute Return 8% pa
Capital Dynamics	-0.8	1.9	-2.7	-2.65	1.94	-4.6	
<b>Pooled Multi Asset</b> Baillie Gifford	1.7	1.0	0.7	-4.5	1.0	-5.5	Base Rate + 3.5% pa
Ruffer	2.7	1.0	1.7	-2.6	1.0	-3.5	
<b>Cash</b>	0	0.1		0.1	0		Base Rate
<b>Average Total</b>	<b>3.1</b>	<b>3.4</b>	<b>-0.3</b>	<b>-3.7</b>	<b>-1.9</b>	<b>-1.8</b>	
<b>Sum Total</b>	<b>35.5</b>	<b>26.4</b>	<b>9.2</b>	<b>-60.8</b>	<b>-5.2</b>	<b>-55.6</b>	

3.6 Table 3 compares returns between 3 months, 1 year and 3 years for listed investments. Unlisted investments such as Infrastructure and Private Equity are not included as it is difficult to compare alternative investments in this manner.

**Table 3: Long Term Returns from Listed Investments**

Periods to 31.03.18		3 mnths - Mar18 (%)	1 year (%)	3 years (% p.a.)
<b>Fixed Income</b>	JH Total Return Bond	0.05	3.21	3.02
(4% p.a.)	Benchmark	0.99	4.00	4.17
	<b>Relative Return</b>	<b>-0.94</b>	<b>-0.79</b>	<b>-1.15</b>
<b>Equities-UK</b>	LGIM UK	-6.87	1.33	6.04
(FTSE All-Share)	Benchmark	-6.87	1.25	5.86
	<b>Relative Return</b>	<b>0.00</b>	<b>0.08</b>	<b>0.18</b>
	JH UK Small-Cos	-6.22	7.65	6.08
(FTSE Small Cap)	Benchmark	-6.48	2.21	9.02
	<b>Relative Return</b>	<b>0.26</b>	<b>5.44</b>	<b>-2.94</b>
<b>Equities-Overseas</b>	LGIM Global ex-UK	-4.45	2.44	11.29
(FTSE Dev World ex-UK)	Benchmark	-4.47	2.42	11.33
	<b>Relative Return</b>	<b>0.02</b>	<b>0.02</b>	<b>-0.04</b>
<b>Multi-Asset</b>	Baillie Gifford	-4.54	-0.55	2.80
(Base + 3.5%p.a.)	Benchmark	0.99	3.86	3.90
	<b>Relative Return</b>	<b>-5.53</b>	<b>-4.41</b>	<b>-1.10</b>
	Ruffer	-2.55	-1.12	0.00
(Base + 3.5%p.a.)	Benchmark	0.99	3.86	0.00
	<b>Relative Return</b>	<b>-3.54</b>	<b>-4.98</b>	<b>0.00</b>

### 3.7 Fixed Income

The Henderson Bond Fund appreciated by £0.1m in Q4, this re-presented lower than expected increase compared to the benchmark figures.

This fund experienced a generally weak quarter due to high volatility in the developed market government bond yields which saw a rise in January and a fall in February and March as volatility returned to markets.

Whilst there are concerns of low yields and a return of market volatility over the next quarterly cycles, the fund's strategy is to approach the credit markets more cautiously as credit market valuations remain elevated compared to past quarters.

### 3.8 Equities

The UK and Overseas Legal & General funds have seen a decrease in value of £20.8m, representing the worst performance since March 2016.

These are passive funds which track the overall market, so that the fall in value reflects the declines in the equity market indices during the quarter.

Henderson Small Cap saw a negative return of 6.2%. A significant factor was the collapse of one of its holdings in retail, which had represented 1.7% of the portfolio.

### 3.9 **Property**

The Fund's only remaining Property investment is its holding in AVIVA Europe Real Estate Fund of Funds, which is being liquidated by the managers, with the proceeds being returned to investors. This process should be completed by the end of 2018.

Accurate measurement of the performance of this fund is complicated by the 3-month delay in updating the official price of its units, which produces an apparent appreciation in value in a quarter when there has been a distribution of capital to investors. As this investment represented less than 1% of the overall Fund at March 2018, the consequent distortion to overall Fund performance is negligible.

### 3.10 **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.

The depreciation of £2.0m in this quarter is mainly linked to movements in exchange rates as there has been a drop in the value of Sterling compared to the Dollar as majority of this fund's investments are traded in Dollars.

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. This explains the £3.8m distributed amount in the quarter.

### 3.11 **Infrastructure**

This quarter has seen a fifth consecutive drop in value with a depreciation of £2.4m. The depreciation in Q4 will have been largely attributable to the weakness of the dollar during the quarter. The fall in value has continued to reduce the overall asset allocation which currently sits at 3.9% compared to a target allocation of 8%.

There are two investments within this asset class namely Alinda II and Alinda III.

It is normal to expect good and bad investments in this portfolio as it is an unlisted fund. The poor performance from one of its main investments has had a significant negative impact on Alinda II, with a write off of £165m in Q4 and a decrease in fair value of 5.2%. On the other hand, Alinda III has seen a positive appreciation of 9% in Q4.

There is no major cause for concern at this stage as the fund is exiting Alinda II and trading has since increased over the last month. In addition to this Infrastructure investments are by their nature volatile in the short term and it is expected that over the long term the investment will perform better against the benchmark.

### 3.12 **Diversified Growth Fund**

The Baillie Gifford fund has realised continuous growth over the previous year; primarily due to continued positive performance in investment markets.

Members are advised to note that the actual performance for Baillie Gifford for Q4 presented positive returns however, according to the Northern Trust reports, Baillie Gifford has seen a decrease in value of £3.6m in this quarter compared to an appreciation of £1.3m in Q3 and 0.5m in Q2 of 2017. This discrepancy is mainly due to a timing difference between the production of the Northern Trust reports at year end and the final reports received from the London CIV on 19<sup>th</sup> April 2018. This represents a difference of £4m which has been reflected in the valuation reports for April 2018.

This point highlights the weakness in reporting at fixed periods of time, where within a two week period the value of the Baillie Gifford investment increased from £75m to £79m, which can distort the real annual return on investment. Therefore it is important to analyse investment returns over a longer period of time in order to properly evaluate performance, typically over 3 to 5 years.

Ruffer joined the fund in March 2017 and has depreciated in value in every quarter except the last quarter of 2017. The main reason for the poor performance of this fund has been linked to higher investments in equities which did not perform as predicted and poor bond yields. The fund managers have attempted to mitigate this by improving their options portfolio and stock selection however, the overall effect of this strategy was still negative. Officers are liaising with the London CIV to challenge the poor performance of this particular fund and will continue to closely monitor the fund in the future.

- 3.13 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The Fund has agreed a number of its own restrictions as part of the Investment Strategy Statement and are set out in the table below.

**Table 4: Compliance with Investment limits**

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 31 Mar 2018	Compliant Yes / No
Contributions invested in any single partnership	5%	3%	Yes
Contributions invested in partnerships	30%	12%	Yes
Cash deposits	10%	11%	No
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%	4%	Yes

3.14 Cash deposits have breached the restriction limit. This is due to additional cash being held to transfer to the LPFA (as set out in section 3.5.1 above). Excluding this value, the exposure is well within acceptable levels.

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

**Table 5: Outstanding contractual commitments on existing investments**

	31 Dec 2017	31 Mar 2018
	£m	£m
Capital Dynamics	14.0	13.0
Alinda	17.2	16.5
<b>Total</b>	<b>31.2</b>	<b>29.5</b>

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

#### **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 – March 2018 quarterly report  
Legal & General – March 2018 quarterly report  
Northern Trust Performance Report – March 2018  
Websites: <https://www.ons.gov.uk>,

## **9.0 CONTACT OFFICERS**

9.1 Folake Olufeko, Senior Finance Analyst, 020 8937 2491