



London Borough of Havering Pension Fund

Q2 2020 Investment Monitoring Report

Simon Jones - Partner

Mark Tighe - Analyst

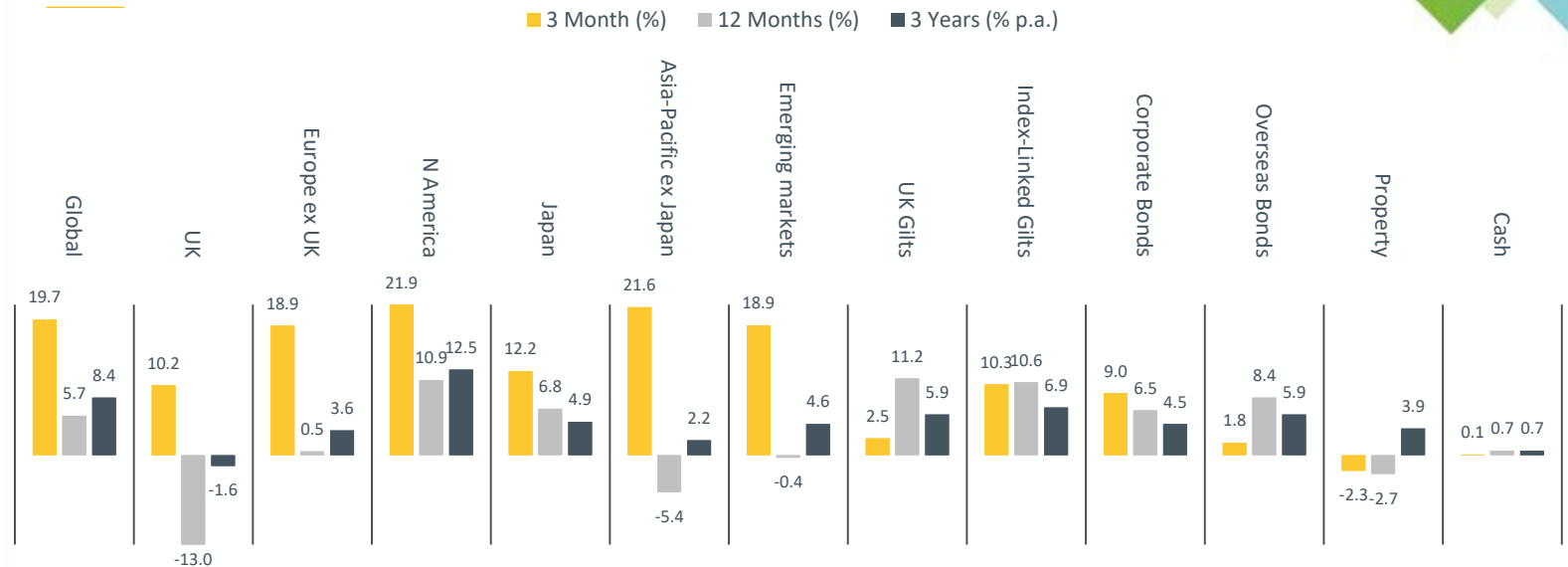
Market Background

Q1 figures confirmed GDP had fallen across the world since the end of 2019. As many of the developed economies went into lockdown during March, falls in second-quarter GDP are likely to be even greater. Purchasing Managers' Indices for both services and manufacturing in the major western economies plunged to record lows in April but, after rebounding in May, saw record rises in June. Though remaining at a level consistent with further economic contraction since May, most commentators suggested the sharp rise from May's numbers provided a better guide to the likely growth in output over the month.

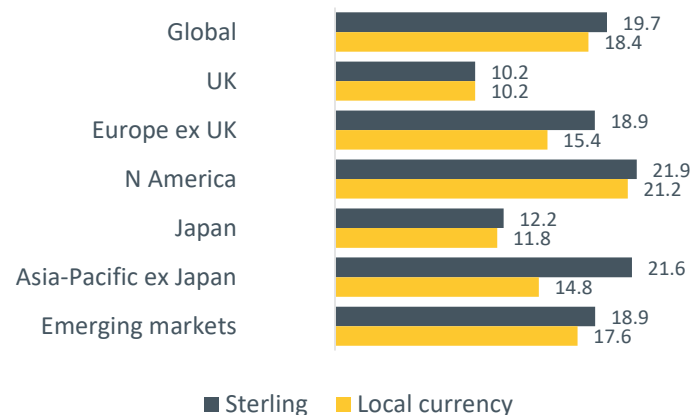
Forecasts for global GDP growth in 2020 as a whole have fallen significantly since the end of the first quarter. However, there has been some moderation in the pace of downgrades to global 2020 GDP data, with some country-level exceptions. UK CPI inflation fell from 1.5% in March to 0.5% in May. Lower energy prices made a big contribution to the fall but core inflation (excluding food and energy) has also fallen from 1.6% to 1.2%, as low as it has been since 2016.

In April, the Fed significantly expanded the corporate credit purchase programmes it had announced in March to include, for the first time, speculative-grade debt. In June, the European Central Bank announced a further €600bn of QE and the Bank of England raised its QE programme from £645bn to £745bn. Sterling consolidated the rebound from its late-March depths in April, but subsequently weakened. In trade-weighted terms, it has fallen more than 2% since the end of March.

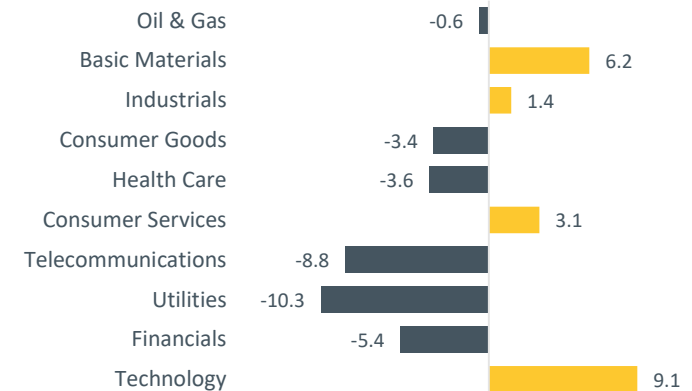
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

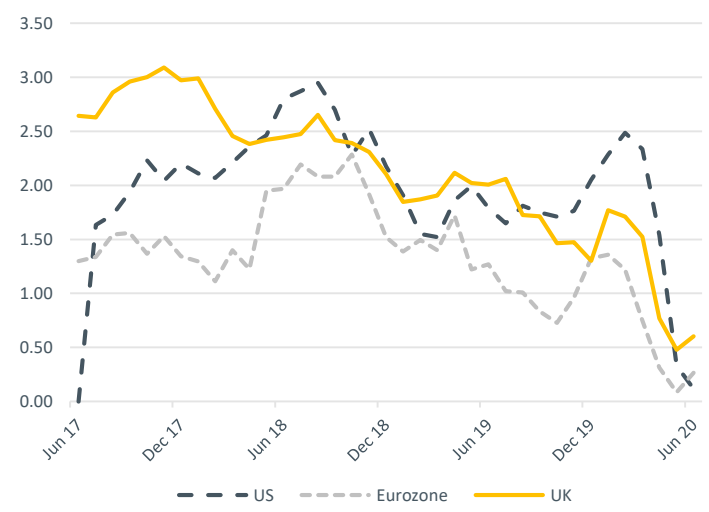


Sovereign bond yields changed little in the US and Germany, but UK 10-year gilts have fallen a further 0.2%. Index-linked gilt yields have fallen further than conventional gilt yields, resulting in a slight rise in implied inflation. Reflecting the expansion of central bank support, global investment-grade spreads fell from 2.8% p.a. to 1.6% p.a. Global speculative-grade credit spreads fell from 9.2% p.a. to 6.4% p.a., further supported by the specific details of the Fed's purchases and a rise in oil prices from \$22 to \$41 per barrel. Energy companies comprise c.10% of the US high yield market.

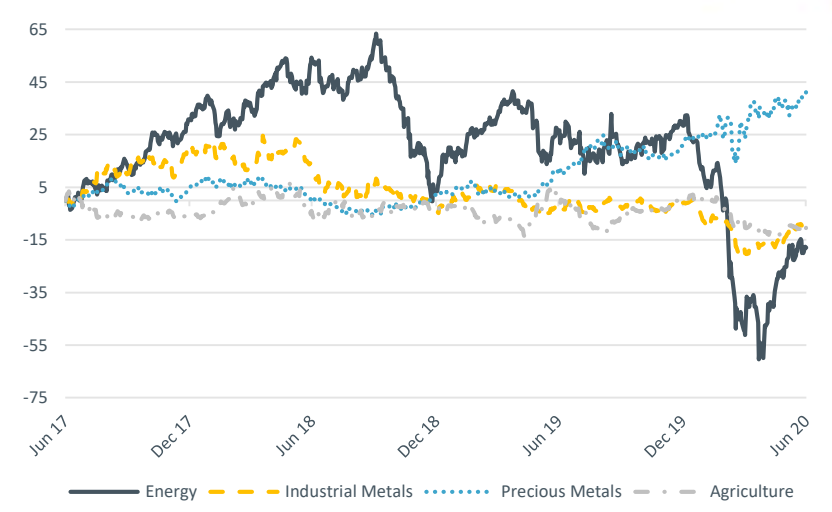
Global equity indices rose 18.4% in local currency terms. Sector composition helps to explain why the US (heavy in technology) leads the regional ranking tables for both this quarter and the year to date and why the UK (hardly any technology and heavy in financials) brings up the rear over both periods. After a poor first quarter, cyclical sectors have fared better in the second: basic materials, industrials and consumer services have outperformed the market; oil & gas has been broadly in line. But financials have fallen further behind. Technology is again at the head of the global performance rankings and, after a relatively resilient first quarter, defensive sectors, such as utilities, telecoms and healthcare, have lagged.

UK commercial property values continue to fall, although there is little or no transaction activity to guide valuations. As measured by the MSCI UK Monthly Property Index, capital values in May were almost 6% below end-2019 levels. Initial evidence suggests commercial tenants withheld rents at the June quarter collection day in England & Wales to a greater extent than in March.

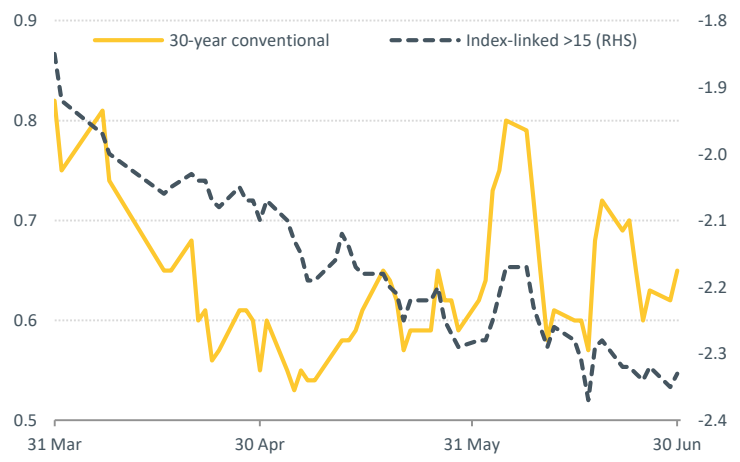
Annual CPI Inflation (% p.a.)



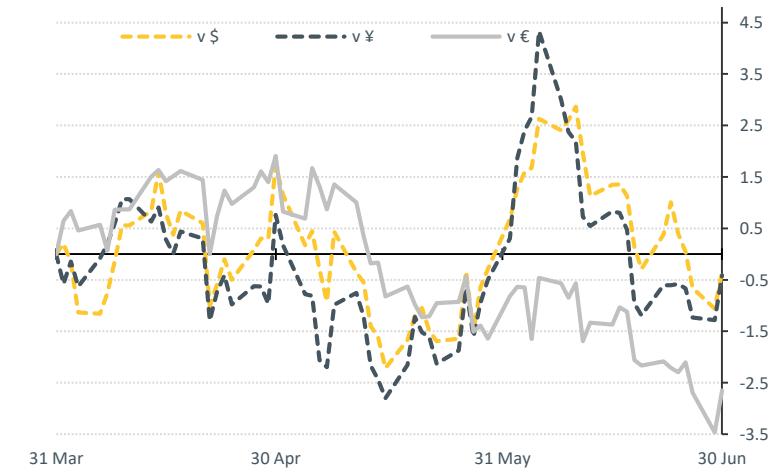
Commodity Prices (% change)



Gilt yields chart (% p.a.)

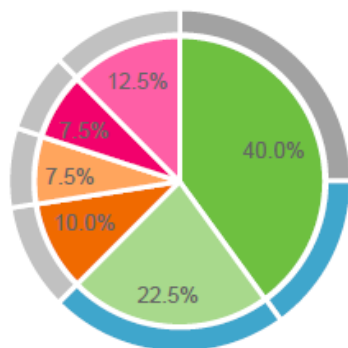


Sterling trend chart (% change)

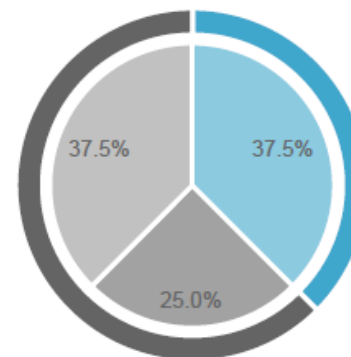


Source: Reuters

Asset Allocation



- Equity
- Multi-Asset
- Property
- Infrastructure
- Private Debt
- Other bonds



- LCIV
- Life funds
- Other retained assets

Long Term Strategic Target

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40	Baillie Gifford	15	LGIM	25		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10					UBS, CBRE	10
Infrastructure	7.5					JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds	12.5					RLAM	12.5
Total	100	-	37.5	-	25	-	37.5

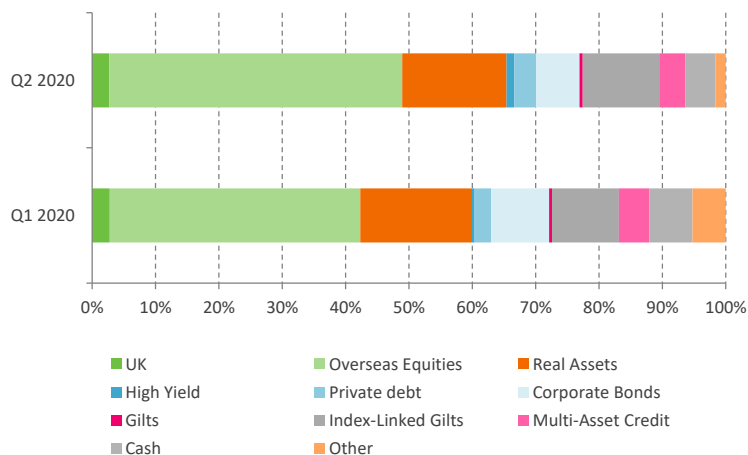
- The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The charts right summarise the approach agreed for the implementation of the Fund's longer-term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee.
- Whilst the Stafford mandate is expected to complete funding in 2020, the drawdown into the private debt mandates is expected to extend into 2021.
- The target allocation to LCIV and life funds totals 75% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- A separate review of the Fund's investment strategy has been undertaken.

Asset Allocation

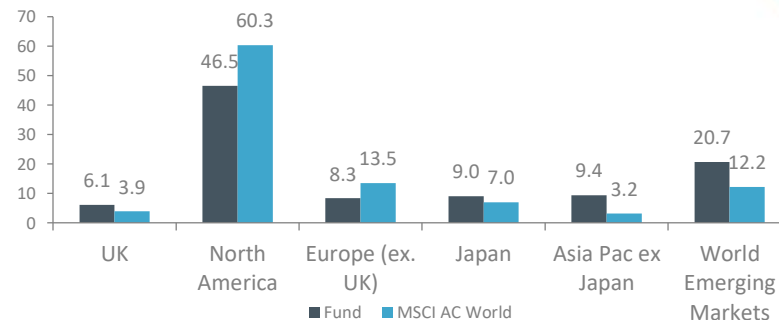
Manager	Implementation	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q1 2020	Q2 2020			
Equity		260.2	320.8	39.4%	40.0%	-0.6%
LGIM Global Equity	LCIV aligned	51.3	61.4	7.5%	7.5%	0.0%
LGIM Fundamental Equity	LCIV aligned	44.6	51.8	6.4%	7.5%	-1.1%
LGIM Emerging Markets	LCIV aligned	27.9	33.1	4.1%	5.0%	-0.9%
Baillie Gifford Global Equity (CIV)	LCIV	136.3	174.4	21.4%	15.0%	6.4%
Other Equity	-	0.0	0.0	0.0%	5.0%	-5.0%
Multi-Asset		182.8	196.1	24.1%	22.5%	-3.4%
Ruffer Absolute Return (CIV)	LCIV	97.7	104.0	12.8%	12.5%	0.3%
Baillie Gifford DGF (CIV)	LCIV	80.0	86.7	10.6%	10.0%	0.6%
GMO Global Real Return	Retained	5.1	5.5	0.7%	0.0%	0.7%
Real-Assets		114.9	112.1	13.8%	17.5%	-3.7%
UBS Property	Retained	41.5	40.5	5.0%	6.0%	-1.0%
CBRE	Retained	29.0	28.6	3.5%	4.0%	-0.5%
JP Morgan	Retained	27.0	25.8	3.2%	4.0%	-0.8%
Stafford Capital Global Infrastructure	Retained	17.4	17.3	2.1%	3.5%	-1.4%
Bonds and Cash		172.1	185.3	22.8%	20.0%	2.8%
RLAM MAC and ILGs	Retained	70.6	78.4	9.6%	8.3%	1.3%
RLAM Corporate Bonds	Retained	54.1	53.3	6.6%	4.2%	2.4%
Churchill	Retained	14.0	15.6	1.9%	4.5%	-2.6%
Permira	Retained	5.6	11.6	1.4%	3.0%	-1.6%
Cash at Bank	Retained	28.5	26.2	3.2%	0.0%	3.2%
Russell Currency Overlay	Retained	-0.7	0.1	0.0%	0.0%	0.0%
Total Scheme		730.0	814.4	100.0%	100.0%	

- The total value of the Fund's assets rose by c. £84.4m over the quarter to c. £814.4m as at 30 June 2020 as global equities and other major asset classes rebounded strongly after the global coronavirus pandemic.
- Over the quarter the Fund paid capital calls to Churchill (£1.7m) and Stafford (£0.9m). These were funded from existing cash and redemptions from the GMO mandate.
- There are still undrawn commitments to Churchill, Stafford and Permira.
- Post quarter end the Fund transferred £15m from cash, £6m each from Baillie Gifford DGF and Ruffer, £9.5m from RLAM corporate bonds and the total remaining value of assets with GMO to LPFA in relation to the college merger from Havering to New City College.
- The "Other Equity" allocation will be addressed in the equity strategy review.

Asset class exposures



Regional Equity Allocation



- The chart right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's allocation to equities increased over the quarter to c.42% at 30 June 2020 (c.47% at 31 March 2020).
- The allocation to real assets decreased to c.16% of Fund assets as at 30 June 2020 (c.18% as at 31 March 2020).
- These movements were driven principally by significant equity market gains as the asset class rebounded strongly from the coronavirus pandemic.

Manager performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
LGIM Global Equity	19.7	19.8	0.0	5.7	5.7	0.0	8.4	8.3	0.0	11.8	11.8	0.0
LGIM Fundamental Equity	16.0	16.0	-0.1	-6.9	-7.0	0.2	2.2	2.2	0.0	8.5	8.6	-0.1
LGIM Emerging Markets	18.8	18.9	-0.1	-0.6	-0.5	-0.2	-	-	-	5.0	5.2	-0.1
LCIV Global Alpha Growth (Ballie Gifford)	27.9	19.6	7.0	17.3	5.1	11.6	14.1	8.3	5.4	16.0	12.3	3.3
LCIV Absolute Return (Ruffer)	6.4	0.1	6.3	8.0	0.7	7.3	2.7	0.8	2.0	4.5	0.8	3.7
LCIV DGF (Baillie Gifford)	8.4	1.0	7.3	-2.1	4.1	-5.9	0.7	4.1	-3.3	3.3	4.1	-0.8
GMO Global Real Return	7.2	1.2	5.9	-9.8	5.4	-14.4	-2.8	5.9	-8.1	-0.8	5.9	-6.3
Income												
UBS Property	-2.0	-2.0	0.0	-1.2	-2.6	1.5	4.5	3.4	1.1	5.8	6.8	-0.9
CBRE	-1.1	1.2	-2.3	6.4	5.7	-0.7	-	-	-	6.0	5.6	0.4
JP Morgan	1.6	1.2	0.4	5.8	5.7	0.1	-	-	-	6.4	5.6	0.8
Stafford Capital Global Infrastructure	-0.7	1.2	-1.9	6.3	5.7	0.6	-	-	-	6.7	6.1	0.6
Protection												
RLAM MAC and ILGs	11.0	10.9	0.1	9.8	9.4	0.3	7.1	6.6	0.5	7.8	7.3	0.5
RLAM Corporate Bonds	9.9	11.5	-1.5	-	-	-	-	-	-	0.8	0.9	-0.1
Churchill	-1.5	1.3	-2.7	11.3	5.0	6.3	-	-	-	5.6	5.0	0.6
Permira	-4.3	1.3	-5.5	-	-	-	-	-	-	0.8	3.8	-2.8
Total	12.0	7.8	3.9	7.0	3.7	3.2	6.0	4.3	1.7	-	-	-

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF, Ruffer Absolute Return and GMO Real Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for CBRE, Stafford and JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell.

- The table sets out the performance of each mandate against their respective benchmarks.
- The LGIM mandates tracked their respective benchmarks over the quarter, whilst the majority of the Fund's other mandates contributed positively to relative returns.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate.
- Please see the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

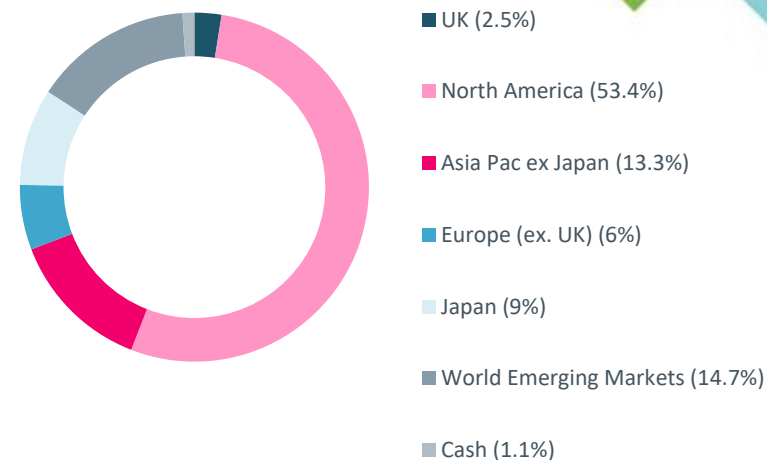
LCIV Funds

- The Fund accesses global equity and multi-asset sub-funds through LCIV.
- LCIV are responsible for the ongoing monitoring and governance of the underlying investment managers.
- The Global Alpha Growth sub-fund is managed by Baillie Gifford.
- The objective of the sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross of fees basis over rolling five-year periods.

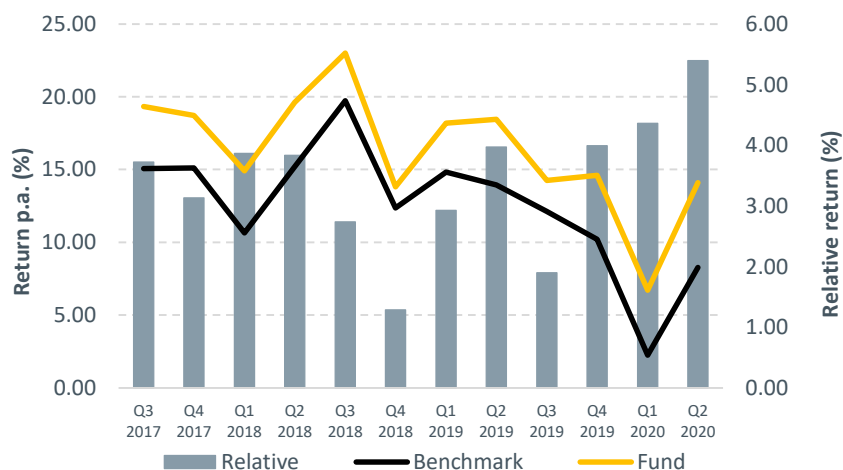
LCIV Global Alpha Growth

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Growth	27.9	17.3	14.1	16.0
Benchmark	19.6	5.1	8.3	12.3
Relative	7.0	11.6	5.4	3.3

Regional Allocation



Rolling 3 year return



Source: Investment Manager, LCIV, Northern Trust
Date of inception 25 April 2012

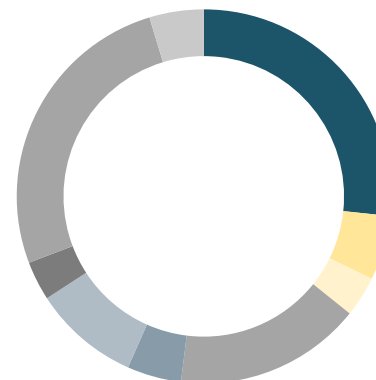
LCIV Diversified Growth Fund

- The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy.
- The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.
- Benchmark is UK base rate + 3.5% (net).

LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	8.4	-2.1	0.7	3.3
Benchmark	1.0	4.1	4.1	4.1
Relative	7.3	-5.9	-3.3	-0.8

Asset Allocation



- Equity (26.7%)
- Property (5.6%)
- Credit (3.5%)
- Bonds (16.2%)
- Commodities (4.7%)
- Absolute Return (9.2%)
- Infrastructure (3.4%)
- Other Alternatives (26.1%)
- Structured Finance (4.7%)

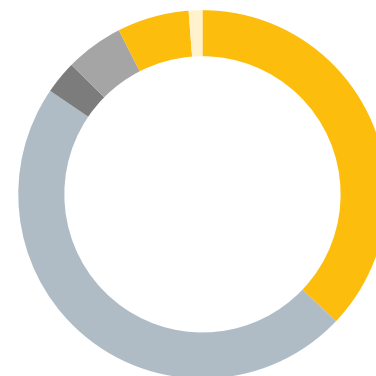
LCIV Absolute Return Fund

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.
- Benchmark is 3 month LIBOR

LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	6.4	8.0	2.7	4.5
Benchmark	0.1	0.7	0.8	0.8
Relative	6.3	7.3	2.0	3.7

Asset Allocation



- Equity (37.1%)
- Index linked bonds (47.4%)
- Gold & Gold mining equities (2.9%)
- Cash (5.1%)
- Hedge Funds (6.3%)
- Other (inc. options) (1.2%)

Source: Investment Managers, LCIV, Northern Trust
 Diversified Growth Fund inception date: 26/11/2013
 Absolute Return Fund inception date: 13/09/2010

LGIM Equity Funds

- LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index (RAFI).
- The objective of this mandate is to match the performance of the respective benchmark indices.
- Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

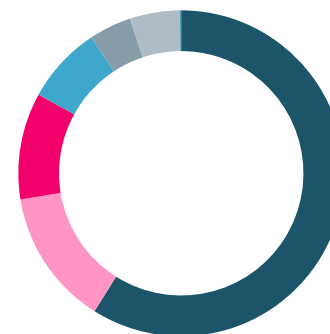
All World Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	19.7	5.7	8.4	11.8
Benchmark	19.8	5.7	8.3	11.8
Relative	0.0	0.0	0.0	0.0

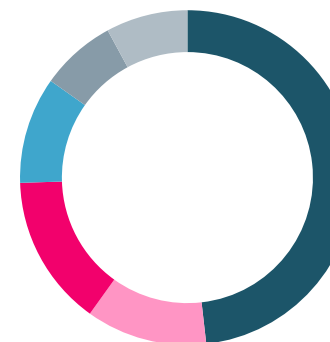
FTSE RAFI All World 3000 Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Fundamental Equity	16.0	-6.9	2.2	8.5
Benchmark	16.0	-7.0	2.2	8.6
Relative	-0.1	0.2	0.0	-0.1

Regional Allocation



Regional Allocation



Source: Northern Trust, LGIM
 All World Equity Index inception date: 23/02/2011
 FTSE RAFI All World 3000 inception date: 19/08/2015

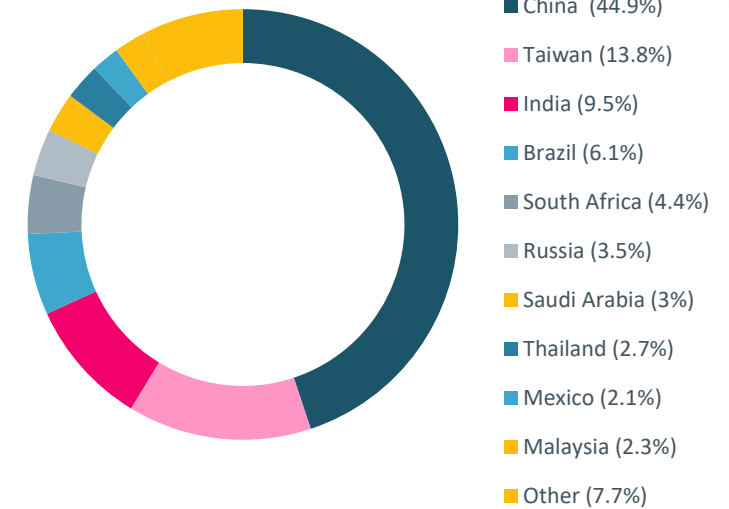
LGIM Emerging Markets

- The objective of this mandate is to match the performance of the FTSE Emerging indices.

World Emerging Markets Equity Index

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
LGIM Emerging Markets	18.8	-0.6	5.0
Benchmark	18.9	-0.5	5.2
Relative	-0.1	-0.2	-0.1

Regional Allocation



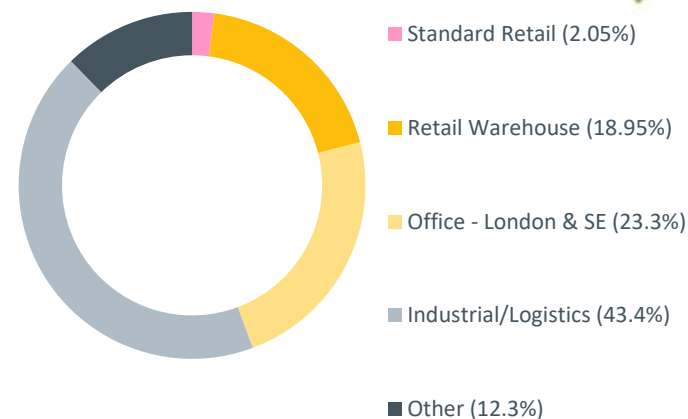
UBS Triton Property Fund

- The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds.
- The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.
- As a result of the coronavirus pandemic, all major UK property funds, including UBS Triton, suspended trading as a result of significant uncertainty in pricing. As such, the full implications of the pandemic on pricing are not currently known, and performance information should therefore be regarded as illustrative at this time.
- Whilst significant uncertainty remains, we expect retail and office sectors will be most impacted by the lockdown. The UBS mandate offers a degree of protection given underweight allocations to each of these sectors.

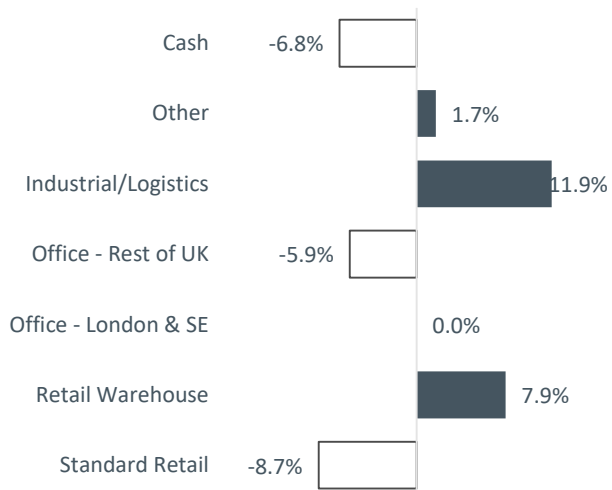
UBS Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
UBS Property	-2.0	-1.2	4.5	5.8
Benchmark	-2.0	-2.6	3.4	6.8
Relative	0.0	1.5	1.1	-0.9

Sector Allocation



Sector Allocation Relative to Benchmark



Source: Northern Trust, UBS
Inception date: 28/02/2005

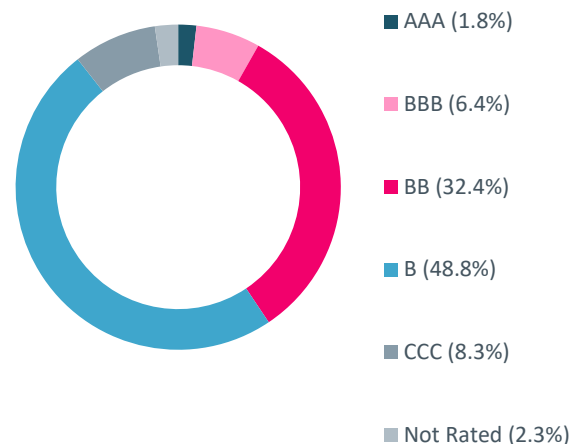
RLAM – Bond mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- During January 2020, RLAM implemented changes to the mandate structure, including the introduction of multi-asset credit.
- RLAM now manage two separate portfolios: the existing portfolio consisting of index linked gilts and with the addition of MAC; and a separate corporate bond portfolio which is being sold down to fund the strategic changes.
- The chart below right compares the credit rating breakdown of the multi-asset credit and corporate bond portfolios at the end of the quarter.

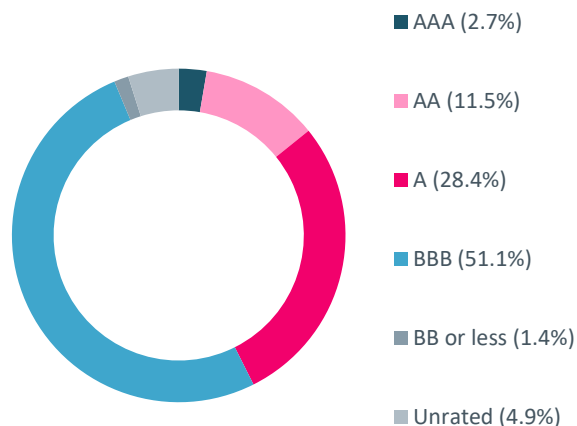
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
RLAM MAC and ILGs	11.0	9.8	7.1	7.8
Benchmark	10.9	9.4	6.6	7.2
Relative	-0.1	0.3	0.5	0.6
RLAM Corporate Bonds	9.9	n/a	n/a	0.8
Benchmark	11.5	n/a	n/a	0.9
Relative	-1.5	n/a	n/a	-0.1

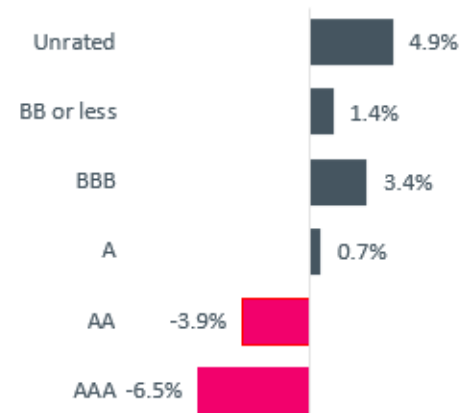
Credit Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit Allocation relative to benchmark (Corporate Bonds)



MAC and ILGs Benchmark: FTSE Index Linked over 5 Year 50%, ICE BAML BB-BBB Index 25%, Credit Suisse US Leveraged Loan GBP Hedged 25%.
 Corporate Bonds Benchmark: iBoxx Sterling Non-Gilt Over 10 year Index.

Source: Northern Trust, RLAM

Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The charts illustrate the breakdown of hedged currency exposures in each mandate (ignoring unhedged exposures).
- Since implementation, sterling has weakened against other currencies.

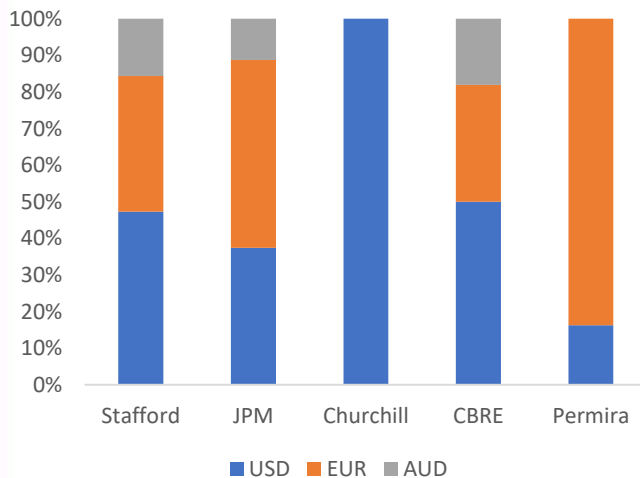
Q2 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	-0.7	-1.2	-1.9	1.2	-3.1
JPM	1.6	-2.3	-0.7	1.2	-1.9
Churchill	-1.5	-1.4	-2.9	1.3	-4.1
CBRE	-1.1	-1.9	-3.0	1.2	-4.2
Permira	-4.3	-1.0	-5.3	1.3	-6.5

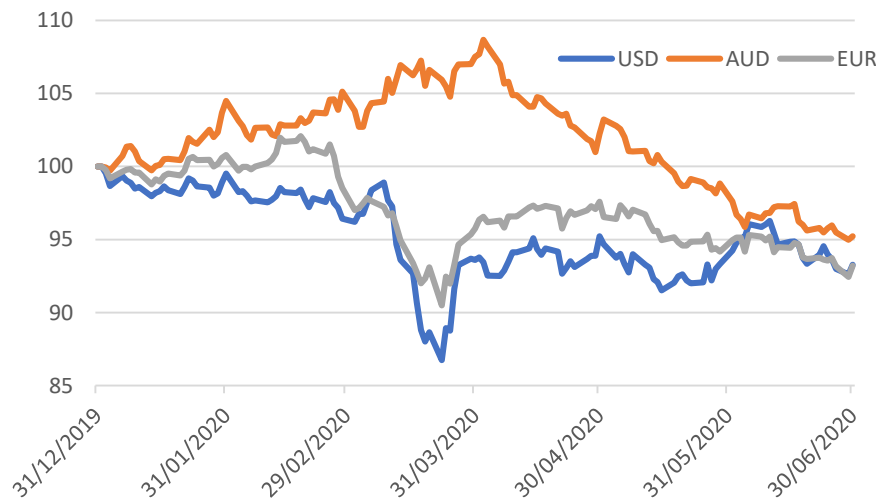
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	6.7	-3.9	2.8	2.6	0.2
JPM	6.4	-5.0	1.4	2.6	-1.1
Churchill	5.6	-6.6	-1.0	2.5	-3.4
CBRE	6.0	-4.7	1.3	2.6	-1.2
Permira	0.8	-1.9	-1.1	2.5	-3.6

Hedged currency exposure as at quarter end



Sterling performance vs foreign currencies (rebased to 100 at 31 December 2019)



Source: Northern Trust, Investment managers

*Performance shown since 31 December 2019 which was the first month end after inception

- Since March 2018, the Fund has made commitments to five private markets funds as outlined below. The table provides a summary of the commitments and drawdowns to 30 June 2020.
- The allocations to JP Morgan and CBRE are fully drawn.
- There are outstanding commitments of approximately £51m to the remaining funds which will be primarily funded from the RLAM mandate.

Mandate	Infrastructure		Global Property	Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	JP Morgan Infrastructure Investments Fund	CBRE Global Investment Partners Global Alpha Fund	Churchill Middle Market Senior Loan Fund II	Permira Credit Solutions IV Senior Fund
Commitment Date	25 April 2018	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34m)	c. £23.8 m (USD 31m)	c. £36 m
Net capital called during quarter (Payments less returned capital)	c. £0.9m (EUR c.1m)	-	-	c. £1.7m (USD 2.2m)	N/A
Net capital drawn to date (Payments less returned capital)	EUR 20.5m (c. £18.4m)	c. £23.6m (USD 31.4m)	c. £25.6m (USD 34.0m)*	c. £14.3.m (USD 19.4m)	c. £5.6m (EUR 6.2m)
Other distributions to date (Includes income and other gains)	EUR 3.4m (c. £3.0m)	-	-	c. £0.5.m (USD 0.7m)	N/A
NAV at quarter end	EUR 22.9m (c. £17.3m)	USD 34.2m (c. £25.8m)	USD 37.9m (c. £28.6m)*	USD 20.7m (c. £15.6m)	£11.6m
Net IRR since inception (in fund currency)	8.3% p.a. (vs. 8-9% target)*	5.6%	10.3%*	N/A	N/A
Net cash yield since inception (in fund currency)	4.3% p.a. (vs. 5% target)*	10.8%	4.8%*	N/A	N/A
Number of holdings	21 funds, 285 underlying assets*	17 companies, 541 assets	50 investments, 2,484 properties*	N/A	N/A

*as at 31/03/2020 (latest available)

Source: Investment Managers

Capital Markets Outlook

Asset class	Overall view	Market summary
Equities	Cautious	<ul style="list-style-type: none"> While near-term data has started to improve, much uncertainty remains over the longer-term recovery and, ultimately, the extent of the impact on corporate earnings. Recent market moves have reduced the apparent cheapness of global equity markets and current valuations may not adequately reflect the downside risks to the outlook. There remains a meaningful disparity by region – from a valuation perspective the US looks expensive, with the UK and Emerging Markets look cheaper relative to historic levels.
Sterling non-government bonds	Neutral Offers value relative to sub IG excl. rates	<ul style="list-style-type: none"> Global investment grade credit spreads have rebounded strongly and are nearing long-term median levels. Despite similar underlying assessments for both investment-grade and speculative-grade markets, we have a slightly more positive overall view for investment-grade, given the less sensitive nature of this market to the fundamental backdrop. The structural protection inherent in ABS and high stress resilience offers some additional protection relative to unsecured corporate markets.
Sub-investment grade debt	Neutral to Cautious	<ul style="list-style-type: none"> Around two-thirds of the spread widening of the first quarter has been recouped (by end July) since the end of March, though spreads remain above long-term median levels. Default and downgrade expectations have improved; however the outlook still remains uncertain.
UK property	Rating suspended	<ul style="list-style-type: none"> UK commercial property capital values and rental growth are falling across the market as the impact of the pandemic is increasingly reflected in the data. A lack of transactions means the material uncertainty over the accuracy of valuations persists and is likely the data will further deteriorate over the coming months.
Infrastructure	Rating suspended	<ul style="list-style-type: none"> We have seen some significant write-downs of some GDP-sensitive assets, but there is limited evidence of how it has affected broad valuations. Dry powder remains at an all-time high.
Conventional gilts	Neutral to Cautious	<ul style="list-style-type: none"> Gilt yields remain near record lows amid ultra-accommodative monetary policy. Downgrades to forecasts for UK growth and inflation improve fundamental support for gilt markets. Yields are expected to remain subdued for some time as major central banks expand QE programs to provide liquidity to the global financial system, pushing the normalisation of interest rates beyond the horizon of our medium-term views.
Index-linked gilts	Neutral to Cautious	<ul style="list-style-type: none"> Implied inflation is no longer cheap versus forecast and target inflation. The ongoing consultation on the use of RPI as an inflation measure remains a risk for real yields.
Cash strategies	Neutral	<ul style="list-style-type: none"> While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, that can be deployed into buying opportunities.

The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

LCIV Overview

	Comments	Action required
Governance	Following the appointment of a new Head of Responsible Investment, LCIV's Responsible Investment policy remains under review. LCIV are also exploring the appointment of a voting and engagement services provider.	For noting
People	<p>LCIV has appointed Jason Fletcher as their permanent CIO, who started in July 2020. Jason took over from Kevin Corrigan who has been serving as LCIV's CIO on an interim basis. Jason was formerly CIO at LGPS Central and West Midlands Pension Fund, and has more than 25 years of experience in the financial sector. Jason brings significant pooling and LGPS experience.</p> <p>LCIV has also appointed their new Head of Responsible Investment. Jacqueline Jackson, who is a specialist in sustainability and stewardship, has experience working with government bodies and regulators, including previous engagements with London Authorities and pension funds. Jacqueline joined LCIV in July.</p> <p>Finally, LCIV have recently confirmed that Cameron McMullen has taken over the role of Client Relations Director, replacing Kevin Cullen who is due to retire. Cameron started the role in April, and joins from MJ Hudson Allenbridge.</p>	For noting
Performance	As previously noted performance of the LCIV Diversified Growth Fund (Baillie Gifford) disappointed during Q1 but has recovered some of its underperformance over Q2. This should continue to be monitored in conjunction with LCIV.	Action (<3m)
Operations	LCIV have established processes to work from home in light of Covid-19 crisis and have put in place virtual mechanisms for communicating internally and externally. LCIV have established monthly business update webinars for funds and stakeholders from April 2020 and are also continuing to hold meet the manager and seed investor group meetings.	For noting
Sub-fund offerings	<p>LCIV has Seed Investor Groups looking at Renewable Energy Infrastructure and the London Fund.</p> <p>LCIV launched the Inflation Plus Fund on 11 June 2020 – a property fund with the ability to also invest across infrastructure debt and real estate debt if required to seek the best relative value.</p>	For noting
Other developments	None to report at this stage.	For noting

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2018. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2019.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.