London Borough of Havering Pension Fund

Q1 2021 Investment Monitoring Report

Simon Jones – Partner
Mark Tighe – Investment Analyst
Meera Devlia – Investment Analyst

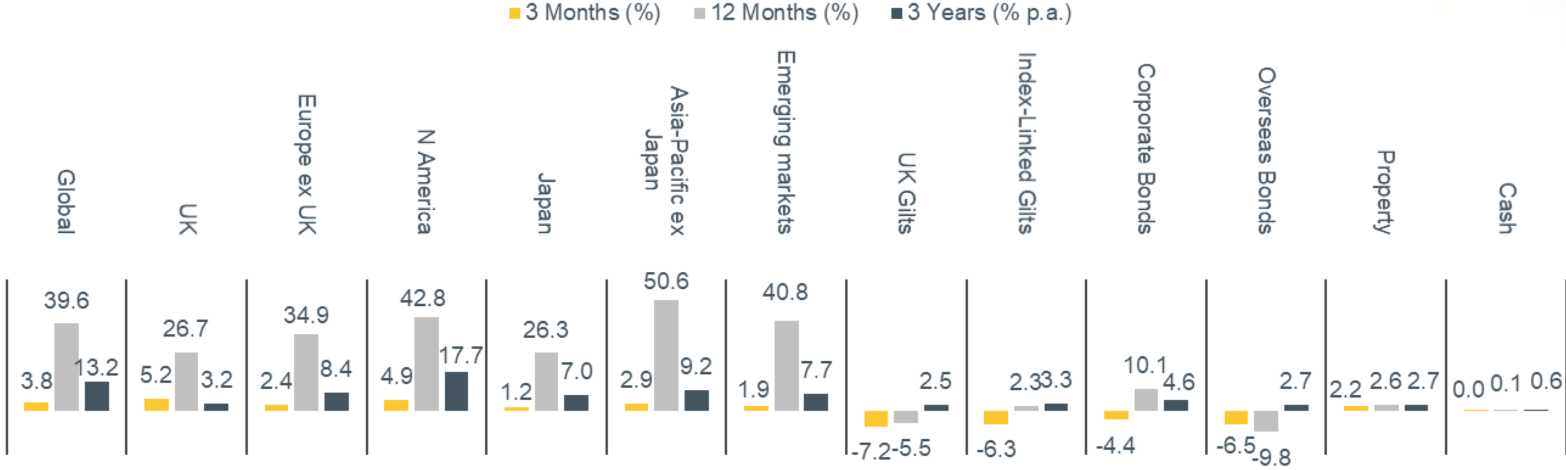
HYMANS ROBERTSON

Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

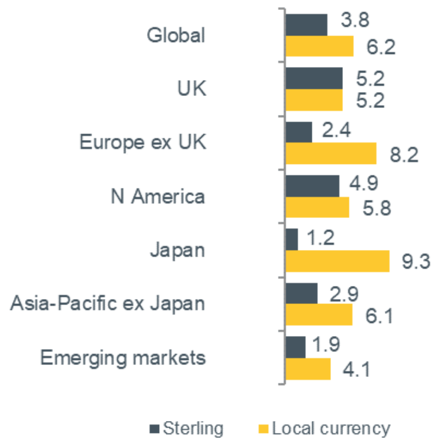
Global equity markets gained 6.2% during the quarter. The improving economic outlook was supportive for more cyclical sectors with energy, financials, basic materials, and industrials the top performing sectors year-to-date, in that order.

Sectoral performance helps explain regional equity performance: Japan and Europe ex-UK, with their above average exposures to industrials, lead the regional performance rankings year-to-date. Emerging markets underperformed markedly, weighed on by a stronger dollar and a Chinese equity market sell-off in February. Despite a higher than average exposure to oil & gas and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index.

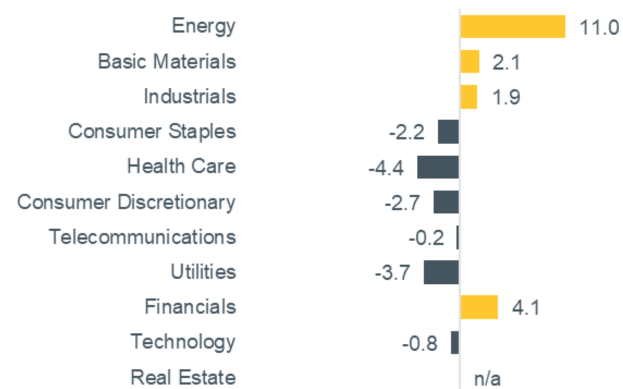
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, 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; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

Market Background

While realised inflation has remained subdued, UK headline CPI inflation rose to 0.7% year-on-year in March, a resumption of activity and deferred consumption alongside rising oil prices are expected to lead to higher inflation in the short-term.

Reflecting the improvement in economic outlook, government bond yields rose significantly: UK 10-year government bond yields rose 0.7% p.a. to 0.8% p.a. Real yields rose less, with 10-year implied inflation, based on the difference in yield on conventional and index-linked gilts, rising 0.4% p.a. to 3.7% p.a.

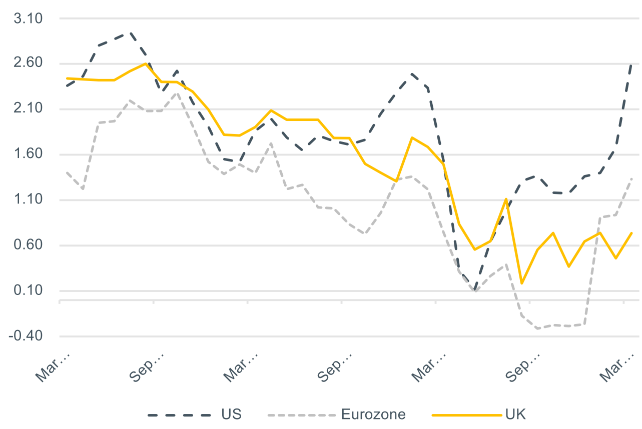
Rising sovereign bond yields weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Global investment-grade spreads fell 0.1% p.a. to 1.0% p.a. and speculative-grade spreads fell 0.4% p.a. to 3.7% p.a.

Sterling continued to move higher, rising 4.1% in trade-weighted terms. Relative improvement in the economic outlook and increased market-implied odds of rate rises saw the US dollar rise 2.5%, in trade-weighted terms, while the Euro and Japanese Yen fell 1.7% and 4.4%, respectively.

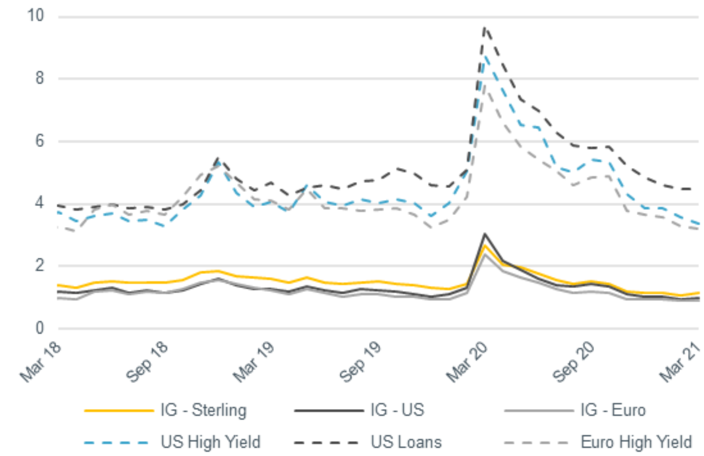
Despite slipping towards the end of the period, oil prices rose 22.4% in the first quarter to $64 per barrel, while the dollar spot price of gold slipped 10.2% as bond yields rose.

The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital value growth has been positive since November.

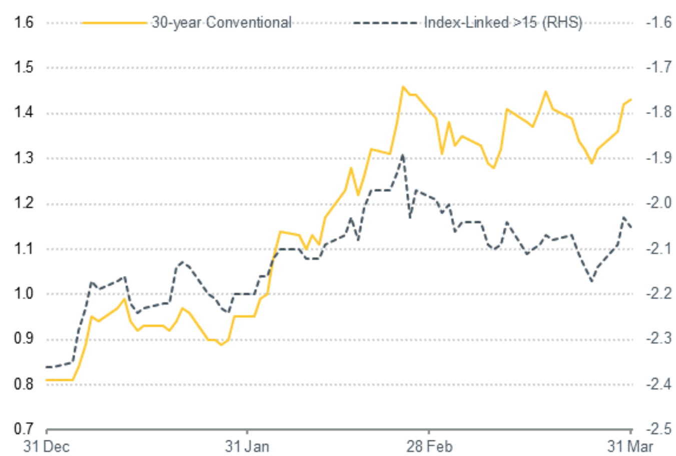
Annual CPI Inflation (% p.a.)



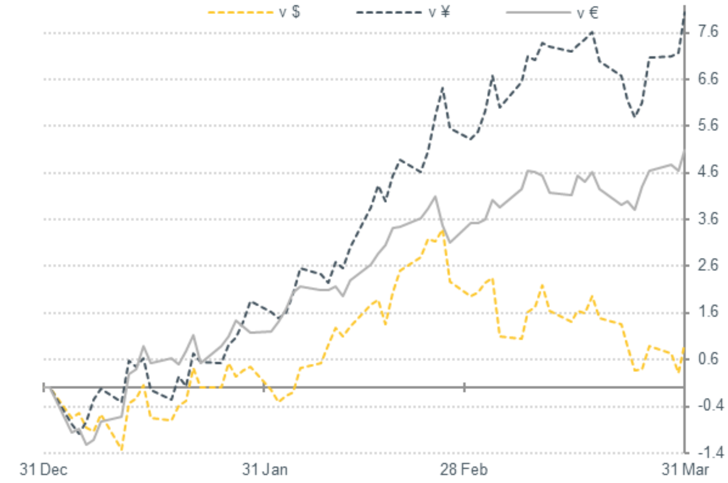
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



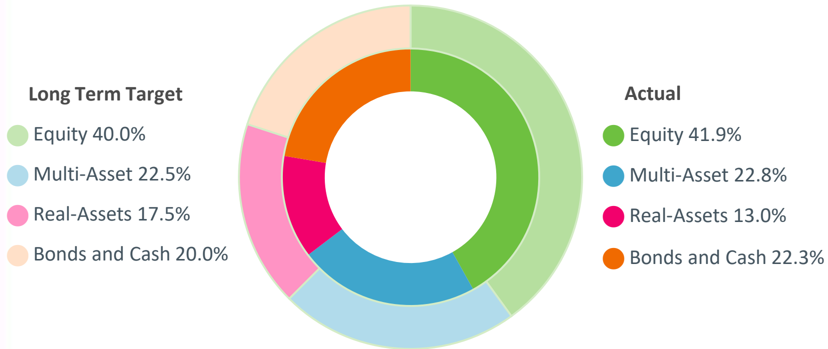
Sterling trend chart (% change)

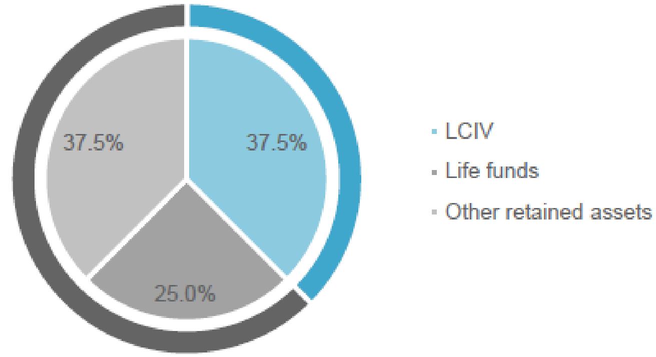


Source: DataStream, Barings and ICE

- 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.
- The drawdown in the first Stafford infrastructure fund and private debt mandates is expected to be completed in 2021.
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- A review of the Fund's investment strategy was carried out by the Committee in 2020. Agreed changes are currently being implemented.
- The Committee has also agreed to a 2.5% allocation to renewable energy infrastructure to be funded by a reduction in multi-asset mandates. This commitment is not yet reflected in target allocations

Asset Allocation





Long Term Strategic Target

Asset class	Long term target	LCIV Manager(s)	LCIV %	Life funds Manager(s)	Life funds %	Other retained assets Manager(s)	Other retained assets %
Equity	40.0	Baillie Gifford	15	LGIM	25		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10.0					UBS, CBRE	10.0
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**

Current Investment Implementation

- The total value of the Fund's assets rose by c. £23.4m over the quarter to c. £874.9m as at 31 March 2021 as global equities rose and credit spreads continued to narrow over the quarter.
- The Baillie Gifford equity mandate remains overweight to support the implementation of changes to the Fund's strategy. In particular, a portion of the overweight position will be trimmed to fund an investment in multi-factor equity.
- **The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. We recommend that an additional £12m is allocated to JP Morgan and that this be funded from the Baillie Gifford Global Alpha fund.**

The Fund paid the following capital calls during the quarter:

- c.£0.7m and c.£2.1m to Churchill funded from existing cash and the RLAM corporate mandate, respectively.
- £3.0m to Permira funded using profits from the Russell currency hedging mandate.
- c.£0.6m to Stafford SISF II funded from existing cash.
- c.£1.7m to Stafford SISF IV funded from the RLAM corporate mandate.

Asset Allocation

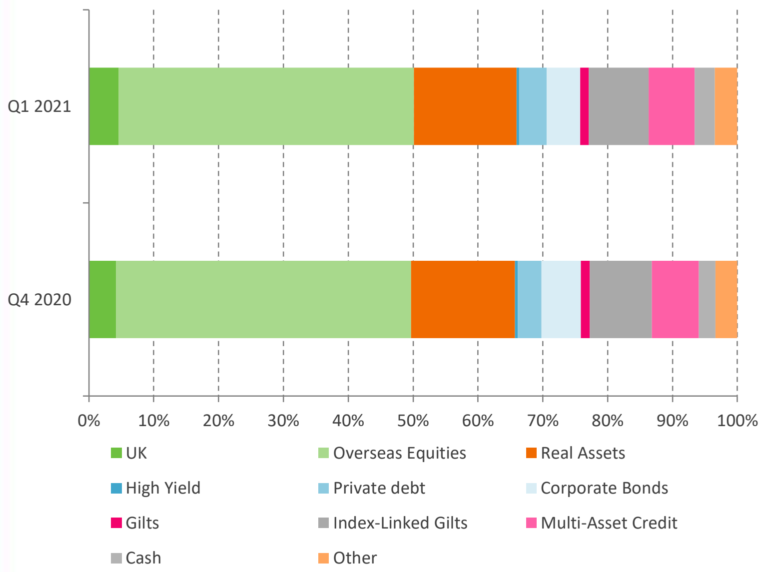
Manager		Valuation (£m) Q4 2020	Valuation (£m) Q1 2021	Actual Proportion	Benchmark	Relative
Equity		**352.9**	**366.1**	**41.9%**	**40.0%**	**1.9%**
LGIM Global Equity	LCIV aligned	68.9	71.6	8.2%	10.0%	-1.8%
LGIM Fundamental Equity	LCIV aligned	58.5	64.3	7.4%	10.0%	-2.6%
LGIM Emerging Markets	LCIV aligned	38.5	39.2	4.5%	5.0%	-0.5%
Baillie Gifford Global Equity (CIV)	LCIV	187.0	191.0	21.9%	15.0%	6.9%
Multi-Asset		**192.2**	**199.2**	**22.8%**	**22.5%**	**0.3%**
Ruffer Absolute Return (CIV)	LCIV	103.6	111.3	12.7%	12.5%	0.2%
Baillie Gifford DGF (CIV)	LCIV	88.6	88.0	10.1%	10.0%	0.1%
Real-Assets		**111.4**	**113.8**	**13.0%**	**17.5%**	**-4.5%**
UBS Property	Retained	40.3	41.4	4.7%	6.0%	-1.3%
CBRE	Retained	26.7	27.8	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.8	23.9	2.7%	4.0%	-1.3%
Stafford Capital Global Infrastructure SISF II	Retained	20.7	19.1	2.4%	3.5%	-1.1%
Stafford Capital Global Infrastructure SISF IV	Retained	0.0	1.6			
Bonds and Cash		**195.0**	**195.7**	**22.3%**	**20.0%**	**2.3%**
RLAM MAC	Retained	61.1	62.0	7.1%	7.5%	-0.4%
RLAM ILGs	Retained	41.7	38.8	4.4%	5.0%	-0.6%
RLAM Corporate Bonds	Retained	44.2	38.0	4.3%	0.0%	4.3%
Churchill	Retained	16.5	19.1	2.2%	3.0%	-0.8%
Permira	Retained	14.4	17.7	2.0%	4.5%	-2.5%
Cash at Bank	Retained	12.5	17.3	2.0%	0.0%	2.0%
Currency Hedging P/L	Retained	3.3	2.7	0.3%	0.0%	0.3%
Total Fund		**851.5**	**874.9**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

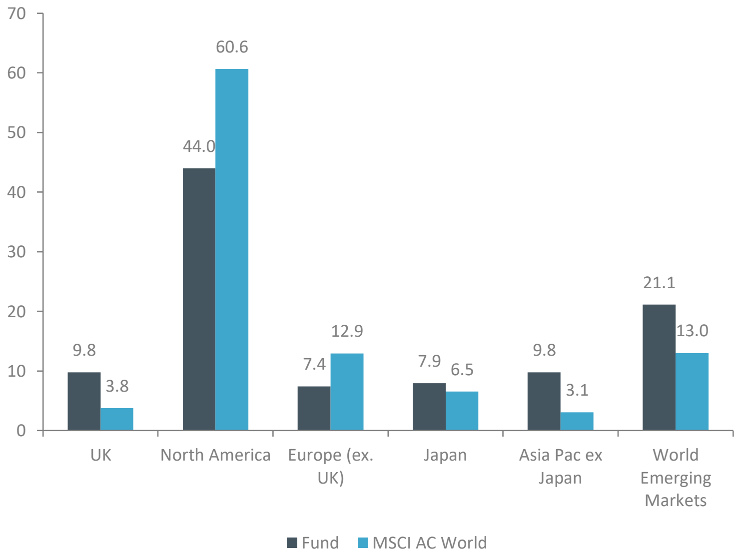
Asset Allocation

- 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.50.1% at 31 March 2021 (c.49.7% at 31 December 2020).
- The allocation to real assets decreased to c.15.8% of Fund assets as at 31 March 2021 (c.16.0% as at 31 December 2020).
- These movements were driven by the significant progress in vaccine rollout programmes, resulting in an improvement in economic outlook and equity market gains over the quarter.
- Strategic allocations to market-cap equity and factor-based equity were both increased from 7.5% to 10.0% following the Committee's review of investment strategy. A corresponding decrease to the multi-asset allocation took place. As noted, the commitment to renewable energy infrastructure is not yet reflected.

Asset class exposures



Regional Equity Allocation



Source: Investment Managers, Datastream

- The table sets out the performance of each mandate against their respective benchmarks.
- The LGIM mandates broadly tracked their respective benchmarks over the quarter, whilst mixed returns were observed across the other mandates.
- The best performing allocation was the Fundamental Equity mandate as value stocks rallied significantly. Mandates with significant duration exposure delivered negative returns as interest rates rose.
- 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 note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

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	3.9	3.9	**0.0**	39.5	39.6	**-0.1**	13.1	13.1	**0.0**	12.7	12.7	**0.0**
LGIM Fundamental Equity	9.9	9.9	**-0.1**	44.1	44.4	**-0.2**	9.1	9.2	**-0.1**	11.5	11.6	**-0.1**
LGIM Emerging Markets	2.0	1.9	**0.2**	40.6	40.8	**-0.2**	-	-	-	11.4	11.5	**-0.1**
Baillie Gifford Global Equity (CIV)	2.2	3.7	**-1.5**	56.3	39.3	**12.2**	18.8	13.1	**5.1**	17.2	13.2	**3.5**
Ruffer Absolute Return (CIV)	7.4	1.0	**6.3**	20.8	4.3	**15.8**	7.4	4.7	**2.6**	5.6	4.8	**0.8**
Baillie Gifford DGF (CIV)	-0.7	0.9	**-1.6**	18.1	3.7	**13.8**	2.6	4.0	**-1.3**	4.2	4.0	**0.1**
Income												
UBS Property	3.1	2.2	**0.9**	3.2	2.5	**0.7**	3.9	2.5	**1.3**	5.9	6.7	**-0.8**
CBRE	4.0	1.4	**2.5**	-4.0	5.7	**-9.2**	-	-	-	4.9	5.7	**-0.8**
JP Morgan	4.4	1.4	**2.9**	-1.7	5.7	**-7.0**	-	-	-	7.8	5.7	**2.0**
Stafford Capital Global Infrastructure SISF II	-3.7	1.4	**-5.1**	-8.6	5.7	**-13.6**	-	-	-	4.2	6.1	**-1.7**
Stafford Capital Global Infrastructure SISF IV	-	-	-	-	-	-	-	-	-	0.0	0.0	**0.0**
Protection												
RLAM Index Linked Gilts	-7.1	-7.0	**-0.1**	2.9	2.6	**0.3**	-	-	-	0.4	0.3	**0.1**
RLAM Multi-Asset Credit	1.3	1.0	**0.3**	21.9	19.1	**2.8**	-	-	-	4.2	3.1	**1.1**
RLAM Corporate Bonds	-7.6	-8.1	**0.6**	8.7	8.8	**-0.1**	-	-	-	8.7	8.8	**-0.1**
Churchill	0.7	1.0	**-0.3**	-6.5	4.4	**-10.4**	-	-	-	1.3	4.7	**-3.2**
Permira	2.3	1.0	**1.3**	-2.9	4.4	**-6.9**	-	-	-	1.5	4.6	**-2.9**
Total	2.3	1.4	**0.9**	24.9	16.0	**7.6**	8.3	6.9	**1.3**	8.2	-	-

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute 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 ad 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..

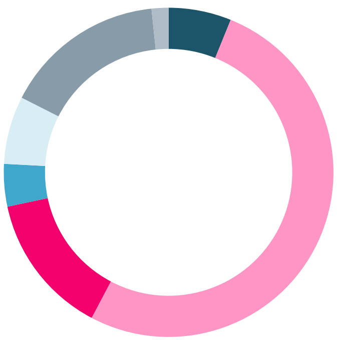
LCIV Funds

- 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.
- Following exceptionally strong performance over 2020, the allocation to the Global Alpha Growth sub-fund is significantly over target weight. The Committee has agreed to trim this as part of the upcoming equity restructure.

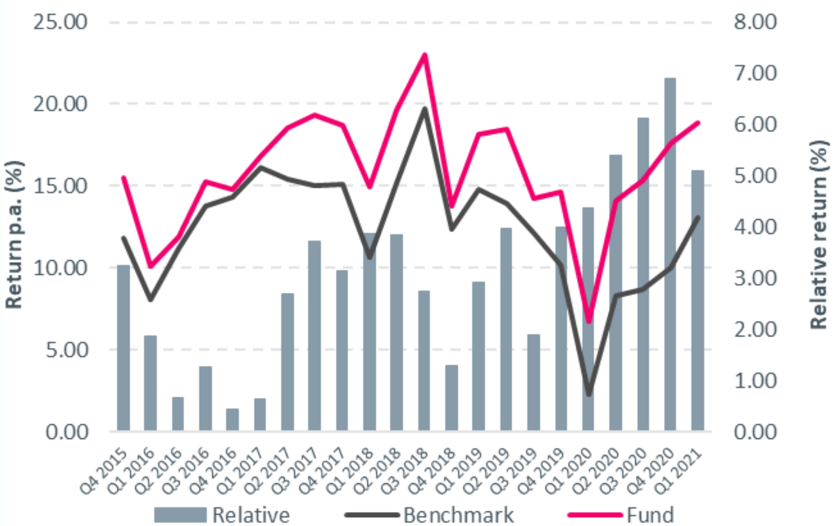
LCIV Global Alpha Growth

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Growth	2.2	56.3	18.8	17.2
Benchmark	3.7	39.3	13.1	13.2
Relative	-1.5	12.2	5.1	3.5

Regional Allocation



Rolling 3 year return



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).

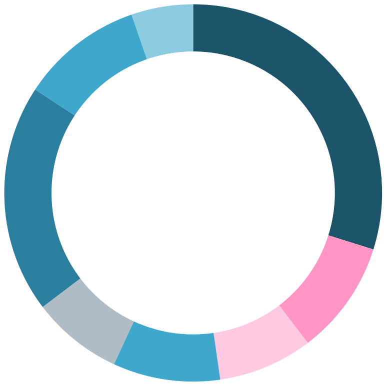
LCIV Absolute Return Fund

- 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 + 4% p.a.

LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	-0.7	18.1	2.6	4.2
Benchmark	0.9	3.7	4.0	4.0
Relative	-1.6	13.8	-1.3	0.1

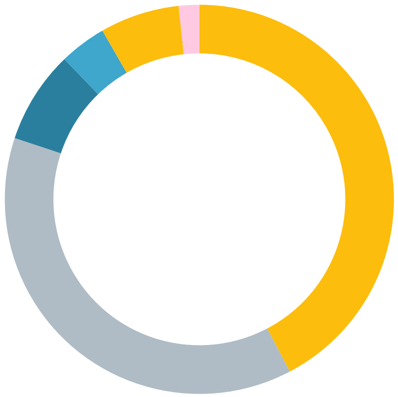
Asset Allocation



LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	7.4	20.8	7.4	5.6
Benchmark	1.0	4.3	4.7	4.8
Relative	6.3	15.8	2.6	0.8

Asset Allocation



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

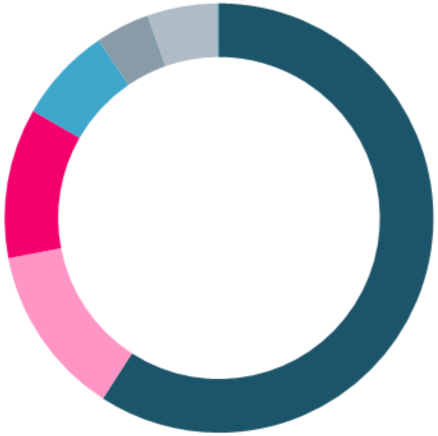
LGIM Equity Funds

- 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.
- The RAFI fund has outperformed the global index by c.6% over the quarter and continues to return strongly in the longer term being c.5% ahead of the global index over 12 months to 31 March 2021.
- The Committee are considering replacing the RAFI allocation (value tilted) with a multi-factor equity fund.

All World Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	3.9	39.5	13.1	12.7
Benchmark	3.9	39.6	13.1	12.7
Relative	0.0	-0.1	0.0	0.0

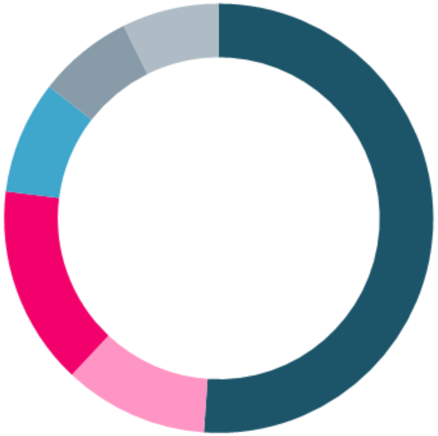
Regional Allocation



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	9.9	44.1	9.1	11.5
Benchmark	9.9	44.4	9.2	11.6
Relative	-0.1	-0.2	-0.1	-0.1

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

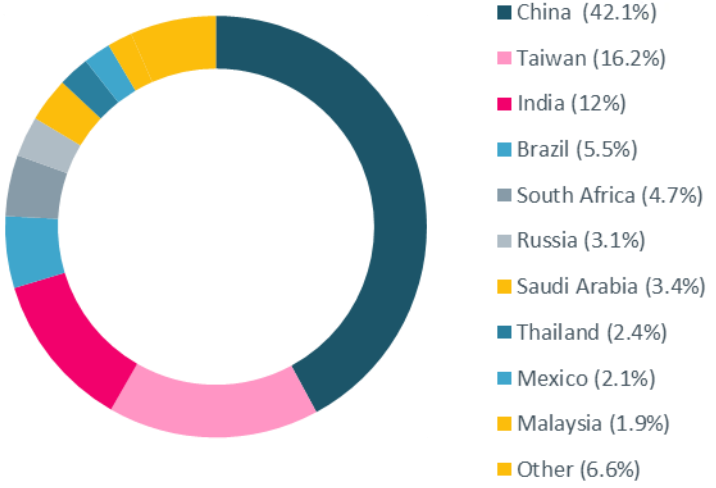
LGIM Emerging Markets

- The objective of this mandate is to match the performance of the FTSE Emerging indices.
- The Committee are planning to review the Fund's emerging market equity allocation in 2022.

World Emerging Markets Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Emerging Markets	2.0	40.6	-	11.4
Benchmark	1.9	40.8	-	11.5
Relative	0.2	-0.2	-	-0.1

Regional Allocation



Source: Northern Trust, LGIM
Inception date: 01/01/2019

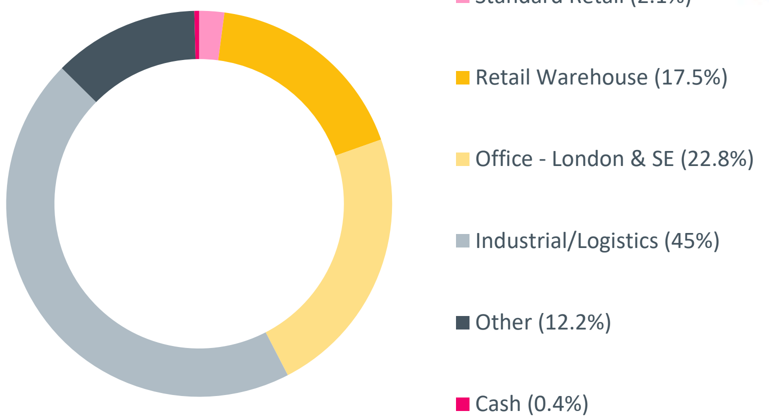
UBS Triton Property Fund

- 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.
- The Triton fund continued to increase the level of rent collection over the quarter and this is moving towards more normal levels after a dip during the start of the pandemic. Rent collection remained positive over Q1 2021 at 90% (89% over Q4 2020) despite lockdown restrictions imposed at the start of 2021.
- The fund delivered strong returns over the quarter, outperforming its benchmark by c.1%, this due to the fund's overweight position to the industrial/logistics sector which strengthened over Q1 2021.

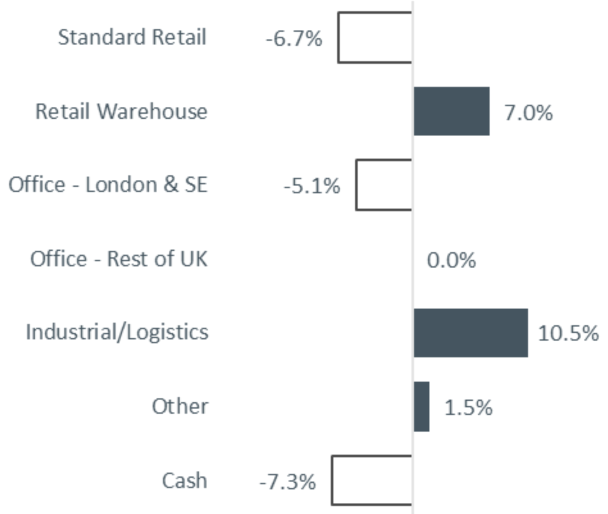
UBS Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
UBS Property	3.1	3.2	3.9	5.9
Benchmark	2.2	2.5	2.5	6.7
Relative	0.9	0.7	1.3	-0.7

Sector Allocation



Sector Allocation Relative to Benchmark



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

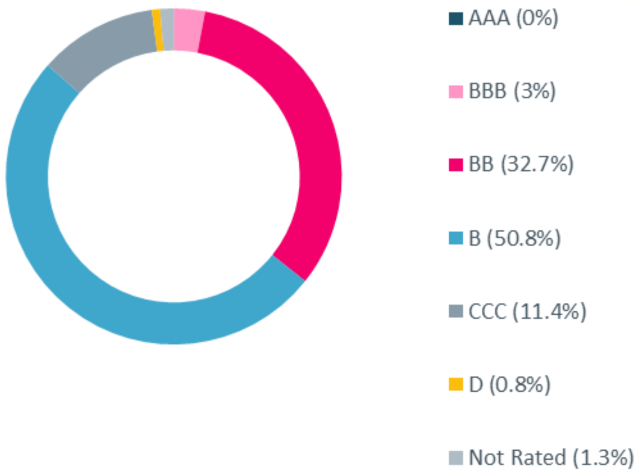
RLAM – Bond mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- 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 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.
- The strategic allocation to corporate bonds is now 0%, with allocations to index linked gilts and multi-asset credit 5% and 7.5% respectively.
- Credit spreads continued to narrow during the quarter which benefitted the corporate bond and MAC portfolios. However, yields rose significantly over the quarter, detracting from overall returns of the joint MAC and ILGs portfolio.

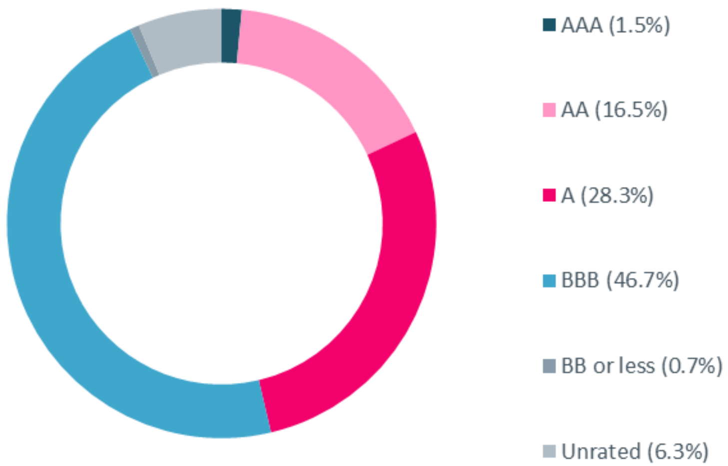
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
RLAM ILGs	-7.1	2.9	0.4
Benchmark	-7.0	2.6	0.3
Relative	-0.1	0.3	0.1
RLAM MAC	1.3	21.9	4.2
Benchmark	1.0	19.1	3.1
Relative	0.3	2.4	1.1
RLAM Corporate Bonds	-7.6	n/a	8.7
Benchmark	-8.1	n/a	8.8
Relative	0.6	n/a	-0.1

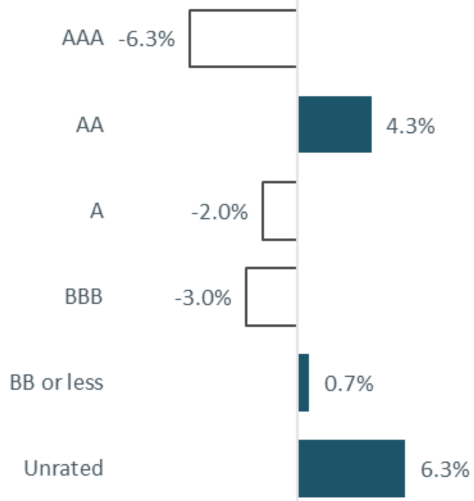
Credit Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit Allocation relative to benchmark (Corporate Bonds)



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.
- Since implementation, the mandate has a realised gain of c.£1.1m. This is due to outperformance of sterling against the Euro and Australian Dollar. A corresponding fall has been seen in the value of the assets exposed to these currencies.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 4.9% to date when the impact of currency fluctuations is included and only 4.1% when currency movements are stripped out by the Russell currency overlay mandate.

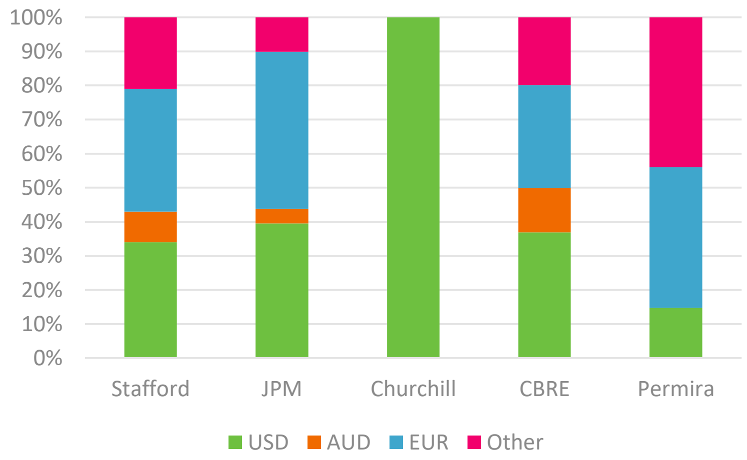
Q1 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	-3.7	2.5	-1.2	1.4	-2.6
JPM	4.4	2.9	7.3	1.4	5.8
Churchill	0.7	3.3	4.0	1.0	3.0
CBRE	4.0	2.2	6.2	1.4	4.7
Permira	2.3	1.8	4.1	1.0	3.1

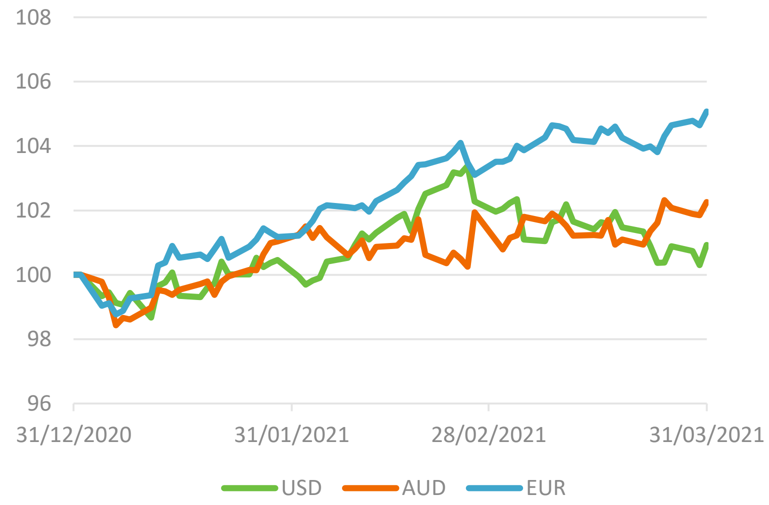
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	4.2	0.6	4.8	6.1	-1.2
JPM	7.8	-0.3	7.5	5.7	1.7
Churchill	1.3	3.1	4.4	4.7	-0.2
CBRE	4.9	0.0	4.9	5.7	-0.8
Permira	1.5	0.5	2.1	4.6	-2.4

Hedged currency exposure as at quarter end**



Sterling performance vs foreign currencies (rebased to 100 at 31 December 2020)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*
*** As at Q4 2020*

- 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 31 March 2021.
- The allocations to JP Morgan and CBRE are fully drawn.
- The first capital call to the Stafford IV fund was made during the quarter.
- There are outstanding commitments of approximately £35m to the remaining funds which will be primarily funded from the RLAM corporate bond mandate.

Mandate	Infrastructure			Global Property	Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	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	18 December 2020	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c.£18m (EUR 20m)	c. £26.1m (USD 34m)	c. £26.1m (USD 34m)	c. £23.8 m (USD 31m)	£36 m
Net capital called during quarter (Payments less returned capital)	c. £0.6m (EUR 0.7m)	c. £1.7m (EUR 1.9m)	-	-	c. £2.8m (USD 3.8m)	c.£3.0m
Net capital drawn to date	EUR 23.4m (c. £19.9m)*	-	c. £26.1m (USD 34m)	c. £26.1m (USD 34m)	c. £19.4m (USD 26.7m)	c. £15.0m (EUR 17.6m)
Distributions/returned capital to date (includes income and other gains)	EUR 4.7m (c. £4.0m)	-	c. £4.49m (USD 6.8m)	-	c. £0.9m (USD 1.2m)	£1.0m
NAV at quarter end	EUR 24.3m (c. £20.7m)	-	USD 32.9m (c. £23.9m)	USD 38.4m (c. £27.8m)	USD 26.4m (c. £19.1m)	£17.7m
Net IRR since inception (in fund currency)	5.3% p.a. *(vs. 8-9% target)**	-	8.6%*	9.6%*	7.7**	13.6*%
Net cash yield since inception (in fund currency)	5.0% p.a. *(vs. 5% target)**	-	10.8%*	4.6%*	5.7%*	4.8%*
Number of holdings	20 funds, 306 underlying assets*	-	18 companies, 594 assets	50 investments, 2,812 properties*	92 investments	26 investments

**as at 31/12/2020 (latest available) **refers to the IRR of realised investments in the portfolio*

Source: Investment Managers

Asset Class	Market Summary
Equities	• Modest gains in equity markets year-to-date leave long-term valuation measures similarly stretched as last quarter. However, valuations look less expensive in the context of very low real yields and there remains significant disparity in valuations by region. Earnings momentum is moderately positive and the bounce in earnings now forecast in 2021 would leave full-year earnings in 2021 approximately 7% above end-2019 levels. Given high valuations and near-term economic uncertainty, we hold a neutral position, despite the fundamental improvement expected in 2021.
Investment Grade Credit	• Spreads remain well below long-term median levels, providing little cushion to guard against potential further rises in yields. While leverage remains elevated and interest coverage is low relative to even shorter-term averages, the earnings recovery forecast should be supportive of debt fundamentals going forward. • Equivalently rated European ABS spreads have lagged the recovery in corporate credit spreads since the peak of market disruption at the end of Q1 2020 and look compelling relative to similarly rated corporate credit. Materially lower forward-looking issuance forecasts remain a relative technical support for ABS markets.
Liquid Sub-Investment Grade Debt	• Defaults remain elevated and leverage and interest coverage are above and below average levels, respectively, but robust earnings growth forecasts could see metrics improve in 2021. While current spreads, which sit well below long-term median levels, suggest the market is already pricing the expected recovery, an environment of declining default rates may lend support to current valuations. Higher yielding, shorter-duration speculative-grade credit markets may have more scope to absorb any further potential rises in government bond yields amid the pro-growth backdrop.
Private Lending	• The fundamental backdrop deteriorated in 2020 due to the pandemic and direct lender's hospitality, retail and travel exposures have been particularly impacted. Transaction levels have returned to pre-COVID levels. Pricing has improved slightly although with higher leverage and loan documentation is now back to pre-COVID. The illiquidity premium to the loan market is positive. More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
Core UK Property	• The outlook for UK property market fundamentals has improved slightly, as the pace of rental declines has eased, though any tailwinds will likely require the UK's path out of lockdown and economic recovery to be smooth. Technical data is improving, with transaction activity strongly rebounding over recent months, although it remains to be seen whether such improvements will be sustained.
Long Lease Property	• On an absolute basis, valuations appear less attractive than wider property market but are supported by marginally stronger fundamentals and are less exposed to the most troubled sectors.
Conventional Gilts	• A sharp acceleration in growth and inflation is expected amid a more substantial easing of COVID restrictions in Q2 on the back of a rapid vaccine roll-out and falling case rates, following Q1 weakness. Yields have risen in the first quarter but may face further upwards pressure as economic recovery and reflation continue. Front-end nominal yields are more beginning to look more fairly valued but longer-term nominal yields are far less attractive.
Index-Linked Gilts	• Implied inflation looks very expensive at terms up to around 25 years and only slightly less so thereafter.

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.

Source: Hymans Robertson

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.

Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

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.