London Borough of Havering Pension Fund

Q3 2021 Investment Monitoring Report

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

HYMANS ROBERTSON

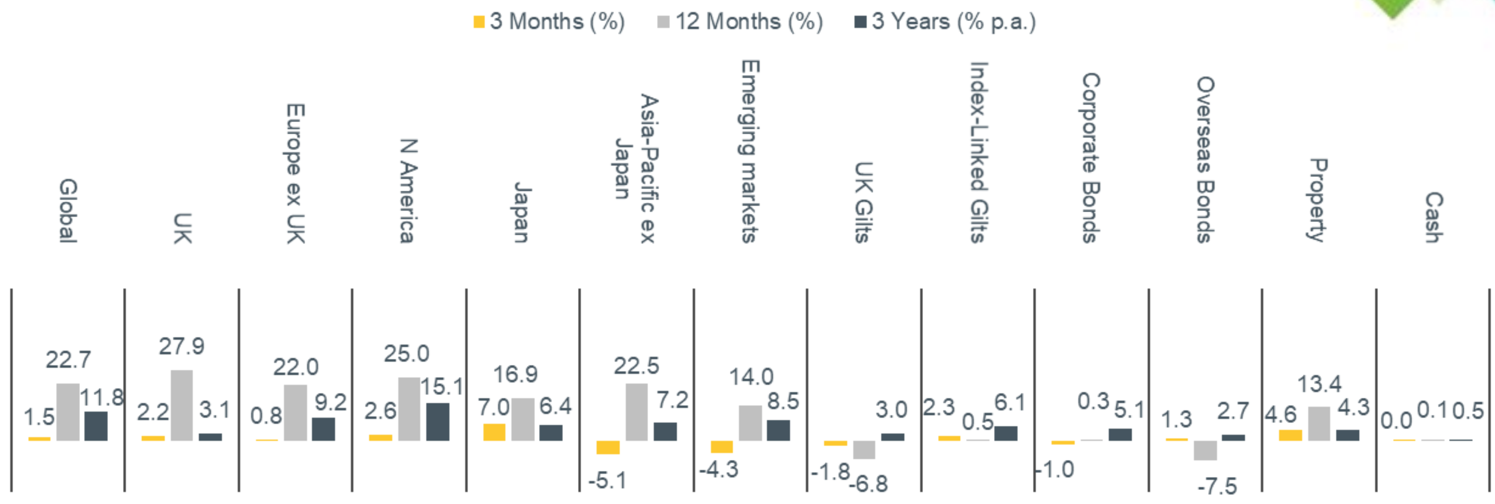
Market Background

Growth momentum continued to ease as the initial impact of re-opening late last year fades. However, the pace of growth in the major advanced economies is forecast to remain strong over the next couple of years, with consensus forecasts global growth of 5.7% in 2021 and 4.4% in 2022.

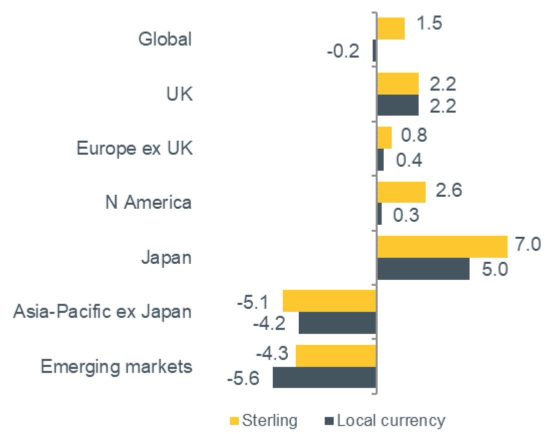
Global equities gave up earlier gains as strong earnings growth was offset by easing economic momentum and the prospect of fading monetary support. Strong rises in energy prices lifted the energy sector, while the prospect of higher interest rates buoyed the financial sector. The defensive growth characteristics of the technology and healthcare sectors saw them outperform, while consumer discretionary, basic materials and industrials all underperformed in Q3.

Japanese markets materially outperformed, rallying on expectations of further stimulus and economic reopening as COVID cases declined. UK markets also outperformed, driven primarily by their above average exposure to the energy sector, while emerging markets were pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and high energy prices

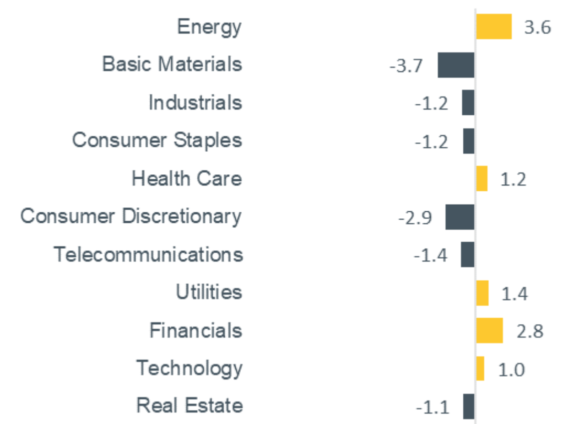
Historic returns for world markets [1]



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 in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

Market Background

The total return on the MSCI Monthly Property index was 13.4% in the year to September, which includes a 5.5% income return. A 7.5% rise in capital values over the 12 months to end of September is attributable to buoyant industrial sector where capital values have risen 24%.

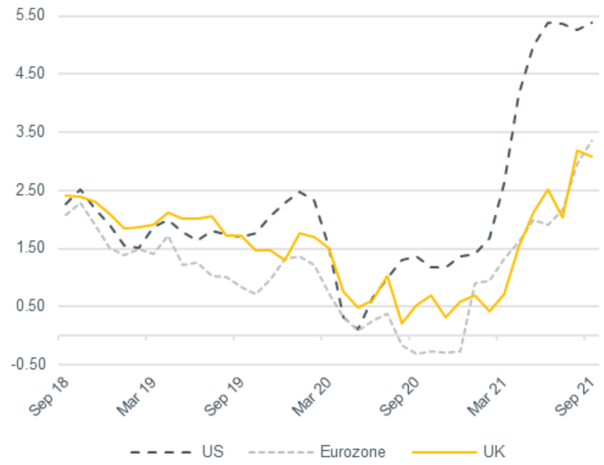
Global investment-grade spreads were little changed in Q3 and global developed market speculative-grade spreads rose 0.3% p.a. Defaults and leverage levels continue to fall, interest coverage is rising, and liquidity remains plentiful. Fears surrounding the potential default of Evergrande, a heavily indebted Chinese property developer, seem to have been contained within Chinese and Asian credit markets for now.

UK 10-year gilt yields rose 0.3% p.a., with steep rises coming in the wake of the Bank of England's September meeting. Having fallen earlier in the quarter, on the back of easing economic momentum, equivalent US and German yields rose back to end-June levels in September.

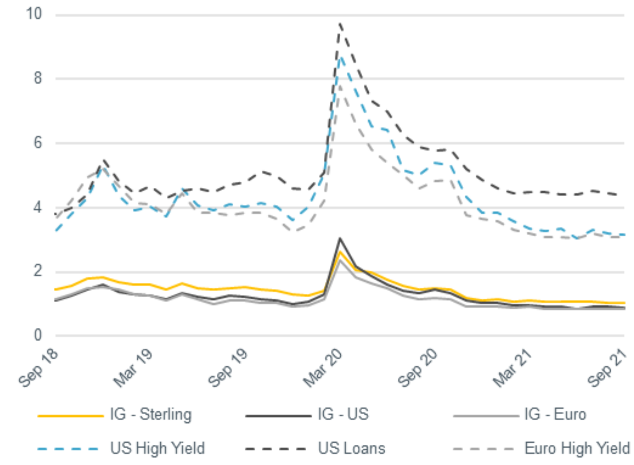
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.5% p.a. to 3.9% p.a. as real yields fell and nominal yields rose. 10-year US implied inflation was little changed over Q3.

The trade-weighted dollar has risen around 1.5% while equivalent measures for the sterling and euro eased 0.9% and 0.4% respectively.

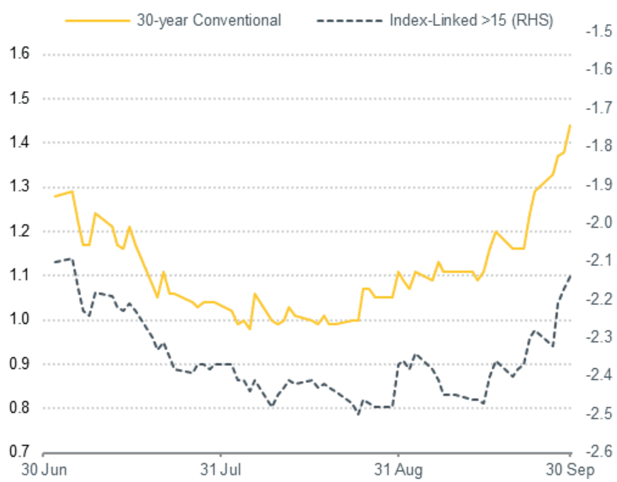
Annual CPI Inflation (% p.a.)



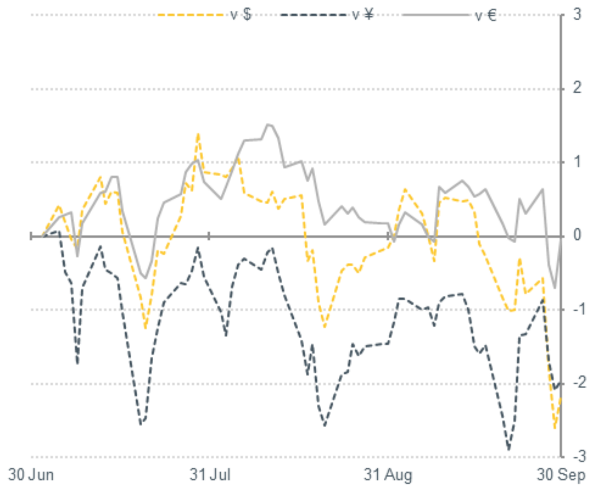
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



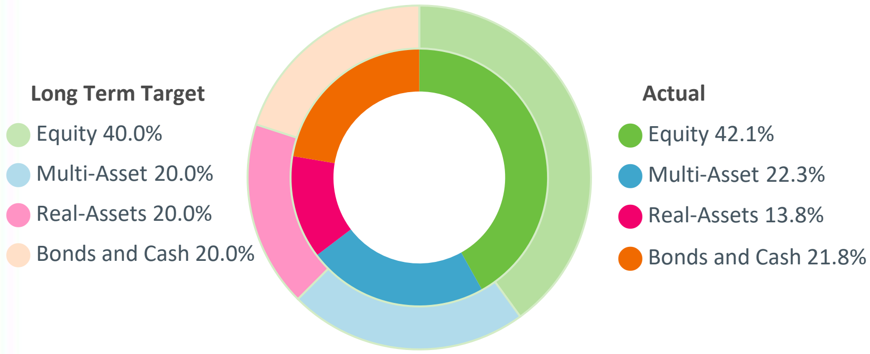
Sterling trend chart (% change)

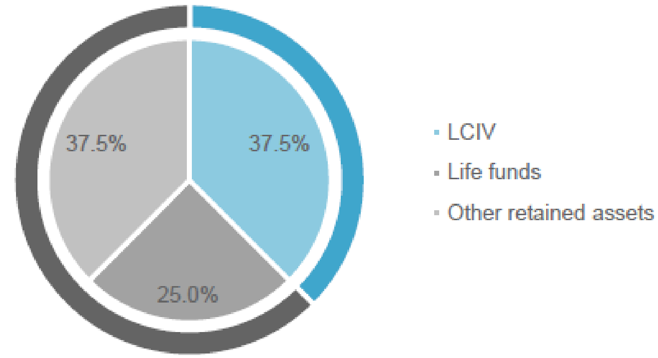


Source: DataStream, Barings and ICE

- The Fund's investment approach is implemented through the London Collective 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 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 have now been implemented and are reflected in the Fund's allocation.

Asset Allocation





Long Term Strategic Target

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford	15.0	LGIM	25.0		
Multi-Asset	20.0	Baillie Gifford, Ruffer	20.0				
Property	10.0					UBS, CBRE	10.0
Infrastructure	10.0	BlackRock Stonepeak, Foresight, Quinbrook	2.5			JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds	12.5					RLAM	12.5
Total	**100.0**	**-**	**37.5**	**-**	**25**	**-**	**37.5**

Current Investment Implementation

- The total value of the Fund's assets rose by c.£6.1m over the quarter to c.£920.3m as at 30 September 2021 as property markets maintained recent momentum.
- The Fund's investment in LGIM Fundamental Equity was transitioned into the LGIM Future World fund during the quarter, with the investment topped up with proceeds from the LCIV Global Alpha Growth fund to bring it up to the target 10%.
- The LCIV Global Alpha investment was transitioned into the recently launched Paris Aligned variant of the fund during the quarter.
- The Committee have agreed to make an additional £12m investment in JP Morgan infrastructure. This is expected to be implemented in Q4 2021.
- The Committee have agreed to make an additional £10m investment in the UBS fund, to be funded from internally held cash, to bring the allocation back up towards target. This investment will take place in Q4 2021.

The following capital calls were paid during the quarter:

- c.£0.3m to Stafford SISF II funded from existing cash on account.
- c.£0.6m to Stafford SISF IV funded from existing cash on account.
- £1.9m to LCIV renewable infrastructure funded from the Baillie Gifford Diversified Growth fund.

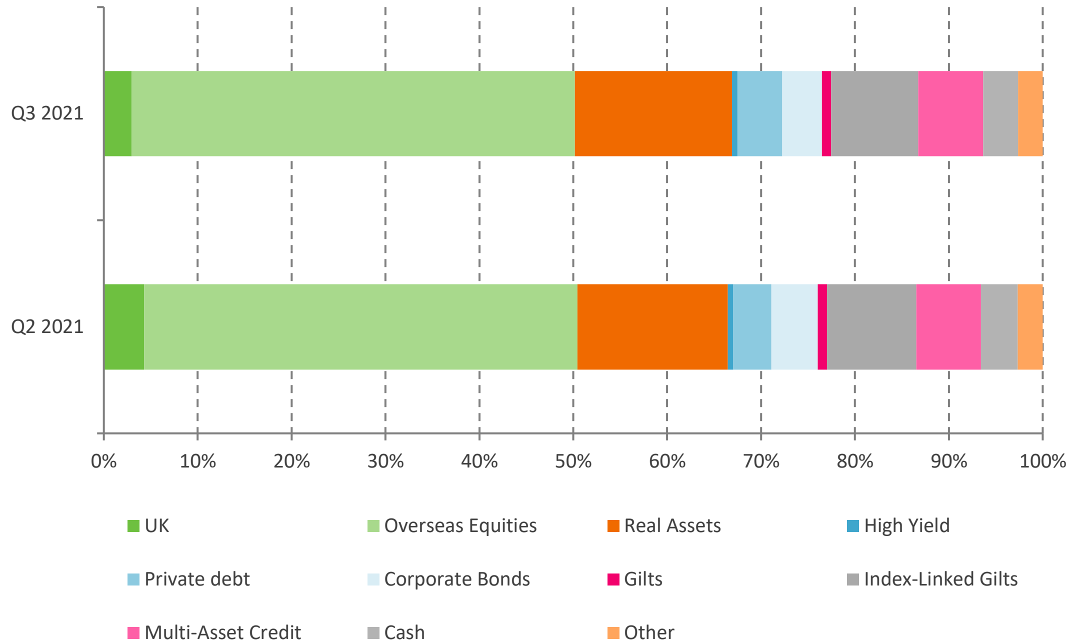
Asset Allocation

Manager		Valuation (£m) Q2 2021	Valuation (£m) Q3 2021	Actual Proportion	Benchmark	Relative
Equity		**390.4**	**387.0**	**42.1%**	**40.0%**	**2.1%**
LGIM Global Equity	LCIV aligned	76.7	77.8	8.5%	10.0%	-1.5%
LGIM Fundamental Equity	LCIV aligned	67.9	0.0	0.0%	0.0%	0.0%
LGIM Emerging Markets	LCIV aligned	41.2	39.4	4.3%	5.0%	-0.7%
LGIM Future World Fund	LCIV aligned	0.0	89.8	9.8%	10.0%	-0.2%
LCIV Global Alpha Growth Fund	LCIV	204.6	0.0	0.0%	0.0%	0.0%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	0.0	180.1	19.6%	15.0%	4.6%
Multi-Asset		**204.3**	**204.9**	**22.3%**	**20.0%**	**2.3%**
LCIV Absolute Return Fund	LCIV	112.0	112.6	12.2%	12.5%	-0.3%
LCIV Diversified Growth Fund	LCIV	92.3	92.3	10.0%	7.5%	2.5%
Real-Assets		**119.8**	**127.4**	**13.8%**	**20.0%**	**-6.2%**
UBS Property	Retained	42.6	44.3	4.8%	6.0%	-1.2%
CBRE	Retained	27.9	29.7	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.8	23.4	2.5%	4.0%	-1.5%
Stafford Capital Global Infrastructure SISF II	Retained	21.2	22.0	3.1%	3.5%	-0.4%
Stafford Capital Global Infrastructure SISF IV	Retained	4.3	6.2			
LCIV Renewable Energy Infrastructure Fund	LCIV	0.0	1.9	0.2%	2.5%	-2.3%
Bonds and Cash		**199.7**	**201.0**	**21.8%**	**20.0%**	**1.8%**
RLAM Index Linked Gilts	Retained	40.3	41.3	4.5%	5.0%	-0.5%
RLAM Multi-Asset Credit	Retained	63.1	63.8	6.9%	7.5%	-0.6%
RLAM Corporate Bonds	Retained	38.3	32.2	3.5%	0.0%	3.5%
Churchill	Retained	19.6	20.1	2.2%	3.0%	-0.8%
Permira	Retained	17.5	23.9	2.6%	4.5%	-1.9%
Cash at Bank	Retained	20.7	20.7	2.2%	0.0%	2.2%
Currency Hedging P/L	Retained	0.3	-1.0	-0.1%	0.0%	-0.1%
Total Fund		**914.2**	**920.3**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

- 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 overall allocation to equities has remained broadly unchanged over the quarter to c.50.2% at 30 September 2021 (c.50.4% at 30 June 2021). Despite a reduction in the allocation to UK equities, the relative allocation to overseas equities further increased.
- The allocation to real assets increased to c.16.7% of Fund assets as at 30 September 2021 (c.16.0% as at 30 June 2021).

Asset class exposures



Source: Investment Managers, Datastream

- The table sets out the performance of each mandate against their respective benchmarks.
- Please note the early stage performance of the Fund's private market investments can be very volatile using this method of performance measurement. This is to be expected and should not provide cause for concern.
- The Bond mandates outperformed their respective benchmarks over the quarter, with the majority continuing to outperform their benchmarks over longer time periods.
- With exception to the Fund's newly added infrastructure mandates, the best performing allocation over the quarter was the CBRE mandate with a 4.2% relative return over the quarter as property markets performed strongly. The MSCI Monthly index returned 13.4% in the year to September 2021 – including a 5.5% income return. Capital values have also risen over the 12 months to September 2021 by 7.5%.
- 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
Equity												
LGIM Global Equity	1.5	1.5	**0.0**	22.6	22.7	**-0.1**	11.8	11.8	**0.0**	12.9	13.0	**0.0**
LGIM Emerging Markets	-4.4	-4.3	**-0.1**	13.8	14.0	**-0.1**	-	-	-	9.4	9.5	**-0.2**
LGIM Future World Fund	-	-	-	-	-	-	-	-	-	-3.4	-3.4	**0.0**
LCIV Global Alpha Growth Paris Aligned Fund	-1.0	1.5	**-2.5**	20.4	22.7	**-1.9**	17.2	11.7	**5.0**	16.9	13.4	**3.1**
Multi-Asset												
LCIV Absolute Return Fund	0.5	1.0	**-0.5**	13.6	4.1	**9.2**	7.2	4.6	**2.5**	5.4	4.8	**0.6**
LCIV Diversified Growth Fund	1.1	0.9	**0.2**	11.7	3.6	**7.8**	5.0	3.9	**1.0**	4.7	4.0	**0.6**
Real-Assets												
UBS Property	3.6	4.5	**-0.8**	13.1	13.2	**-0.1**	5.1	4.1	**1.0**	6.5	7.3	**-0.7**
CBRE	6.5	2.2	**4.2**	7.8	8.1	**-0.2**	-	-	-	6.5	6.6	**-0.1**
JP Morgan	1.1	2.2	**-1.1**	3.3	8.1	**-4.4**	-	-	-	6.6	6.6	**0.1**
Stafford Capital Global Infrastructure SISF II	2.3	2.2	**0.2**	2.7	8.1	**-5.0**	5.6	6.6	**-1.0**	6.4	6.8	**-0.3**
Stafford Capital Global Infrastructure SISF IV	24.7	2.2	**22.1**	-	-	-	-	-	-	39.6	5.2	**32.7**
LCIV Renewable Energy Infrastructure Fund	-0.6	2.0	**-2.5**	-	-	-	-	-	-	-0.6	2.0	**-2.5**
Bonds and Cash												
RLAM Index Linked Gilts	2.5	2.3	**0.2**	0.6	0.2	**0.4**	-	-	-	6.2	5.9	**0.3**
RLAM Multi-Asset Credit	1.2	0.8	**0.4**	7.8	5.1	**2.6**	-	-	-	8.5	7.6	**0.8**
RLAM Corporate Bonds	-1.4	-1.9	**0.5**	-0.4	-2.2	**1.8**	-	-	-	7.1	6.6	**0.4**
Churchill	4.0	1.0	**3.0**	4.7	4.1	**0.7**	-	-	-	3.1	4.6	**-1.4**
Permira	1.6	1.0	**0.6**	3.1	4.1	**-1.0**	-	-	-	2.6	4.4	**-1.8**
Total	0.6	1.1	**-0.5**	14.5	11.4	**2.7**	8.9	7.5	**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 Equity mandate was managed by SSGA prior to November 2017 and we have retained the performance history. Performance figures for CBRE, Stafford and JP Morgan have 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 LCIV Global Alpha Paris Aligned fund includes performance from the non-Paris aligned variant for the first part of the quarter.

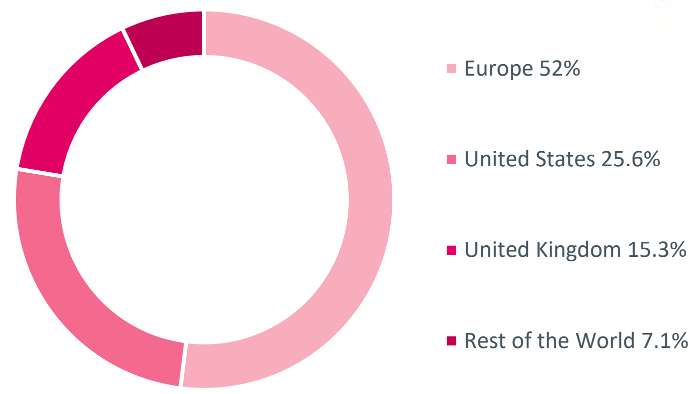
RLAM – Bond mandates

- 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.
- During the quarter, credit spreads were little changed with continued declining default rates and leverage levels. Real yields also continued to fall over the quarter meaning the mandate has contributed positive relative returns.

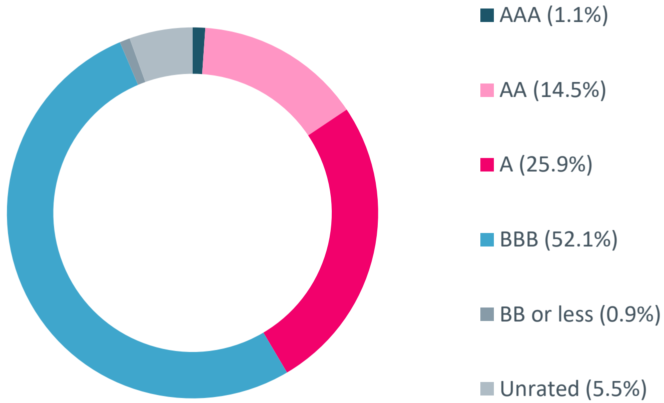
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
RLAM ILGs	2.5	0.6	6.2
Benchmark	2.3	0.2	5.9
Relative	0.2	0.4	0.3
RLAM MAC	1.2	7.8	8.5
Benchmark	0.8	5.1	7.6
Relative	0.4	2.6	0.8
RLAM Corporate Bonds	-1.4	-0.4	7.1
Benchmark	-1.9	-2.2	6.6
Relative	0.5	1.8	0.4

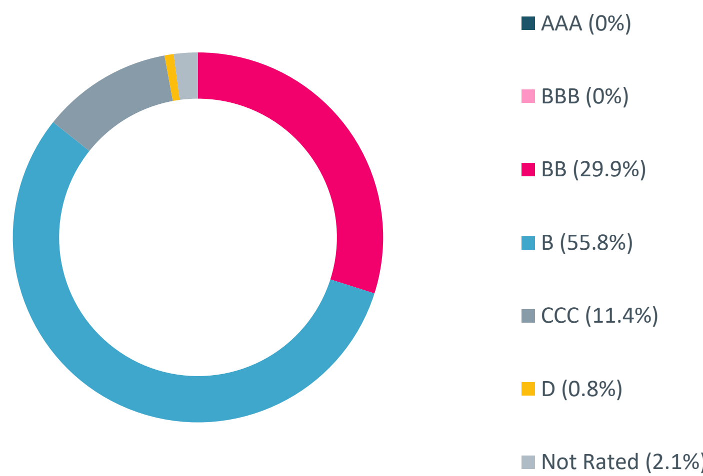
Regional Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit allocation (MAC)



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

Private Debt

- The strategic allocation to the Churchill and Permira private debt mandates is 3% and 4.5%, respectively – with both currently being underweight to their benchmark allocation.
- Over the quarter, both the Churchill and Permira private debt mandates outperformed their respective benchmarks and contributed positively to overall return. However, Permira contributed a relative return of 0.6% over the period compared to Churchill's relative return of 3.0%.
- Over longer periods of 12 months and since inception, Churchill has continued to outperform Permira.
- As at 30 September 2021, Churchill is invested in a much broader range of sectors compared to Permira.

Churchill II Fund Performance

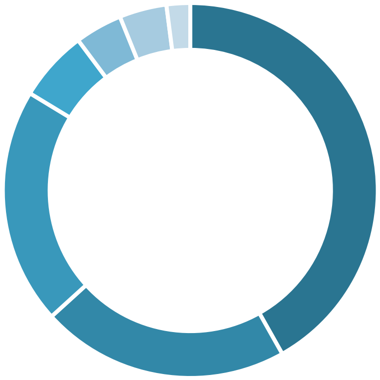
	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Churchill	4.0	4.7	3.1
Benchmark	1.0	4.1	4.6
Relative	3.0	0.6	-1.4

Churchill II Sector Allocation

Permira IV Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Permira	1.6	3.1	2.6
Benchmark	1.0	4.1	4.4
Relative	0.6	-1.0	-1.8

Permira IV Sector Allocation*



Source: Northern Trust, RLAM, Permira
** As at 30 June 2021*

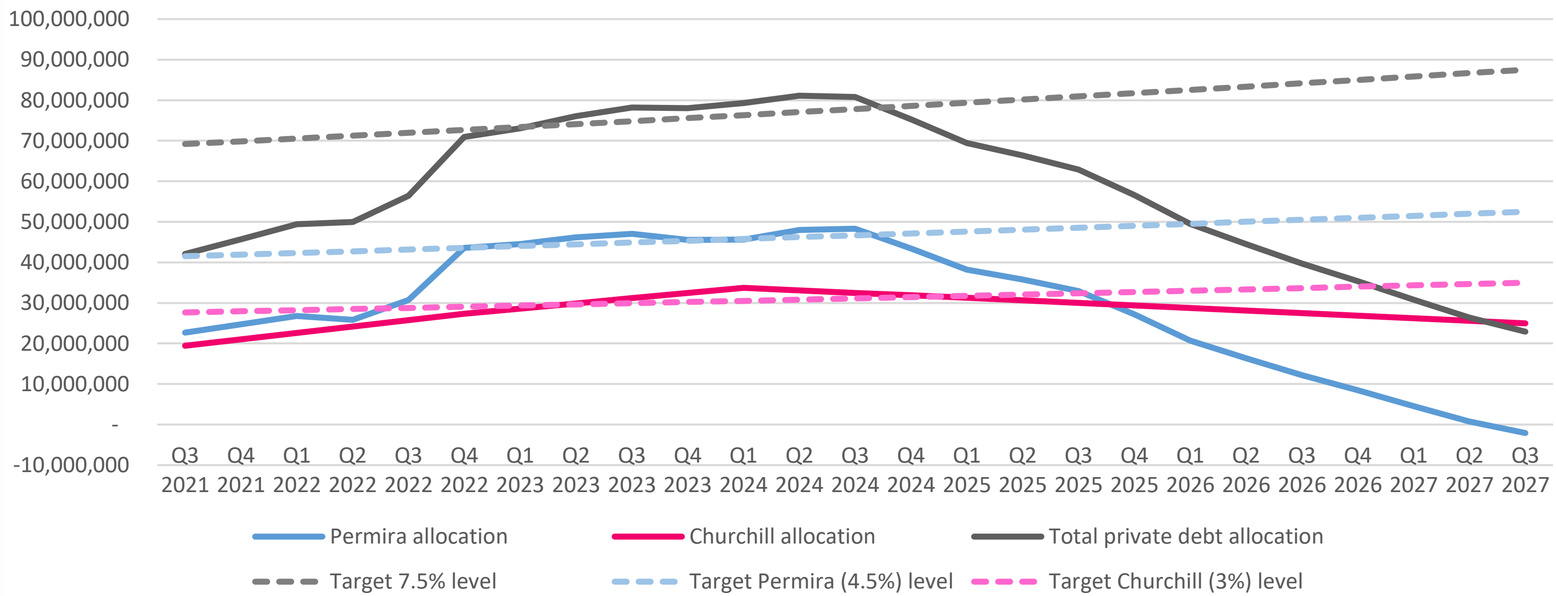
Private Debt (continued)

- As can be noted, the Churchill portfolio is significantly more diverse with a larger number of investments to date.
- During the quarter and since quarter-end, Permira completed 4 new investments and 3 follow-on investments totalling 395m EUR (c.£339m) and 126m EUR (c.£108m), respectively. The majority of these investments have been in the technology sector.
- Churchill completed 2 new investments and 1 follow-on investment during the quarter totalling $9.2m.
- Due to the nature of investment in private debt, where capital is committed up front and then called and subsequently distributed over a period, it is difficult to maintain a set allocation. However, this can be managed by re-upping into future vintages and recycling the cash to maintain exposure.
- The cashflow forecast chart right shows the projected allocation to private based on projections provided by the managers. The forecast includes the recent commitments to new vintages of Churchill and Permira funds and, as can be seen, the target 7.5% allocation is expected to be broadly maintained from Q2 2022 – 2025. It should be noted however that this is based on estimated projections and actual experience is likely to differ significantly.

Private Debt Overview

	Churchill II	Churchill IV	Permira IV	Permira V
Total commitment	$31m (c.£23m)	$26.5m (c.£19m)	£36m	£43m
Capital called to date	$27.3m	-	£17.6m	-
Cumulative distributions to date	$1.6m	-	£1.6m	-
Number of investments	85	-	35	-
Number of realised investments	33	-	6	-
Realised IRR	7.4%	-	9.6%	-
Realised gross multiple of invested capital	1.07x	-	1.16x	-

Private Debt Cashflow Forecast



Source: Churchill, Permira

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 volatility of returns (measured as the standard deviation of quarterly returns since inception) is **5.2%** to date when the impact of currency fluctuations is included and only **4.7%** when currency movements are stripped out by the Russell currency overlay mandate. This is indicates that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

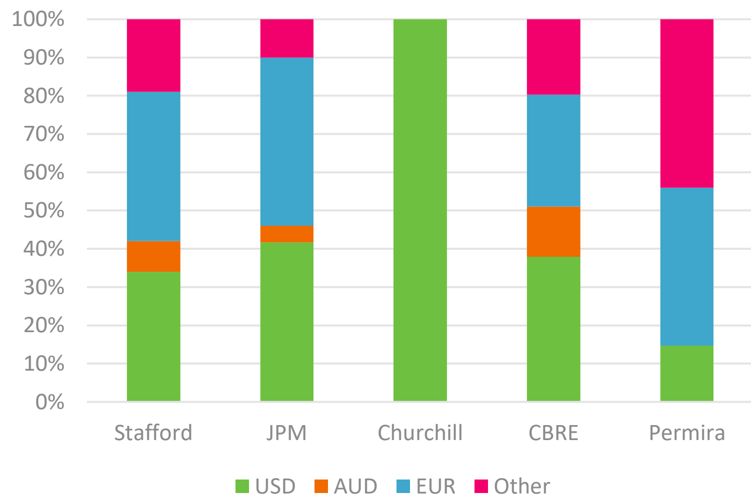
Q3 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	2.3	-0.1	2.2	2.2	0.0
Stafford IV	24.7	-0.4	24.3	2.2	21.7
JPM	1.1	-0.3	0.8	2.2	-1.4
Churchill	4.0	-1.6	2.4	1.0	1.4
CBRE	6.5	0.0	6.5	2.2	4.2
Permira	1.6	-0.1	1.5	1.0	0.5

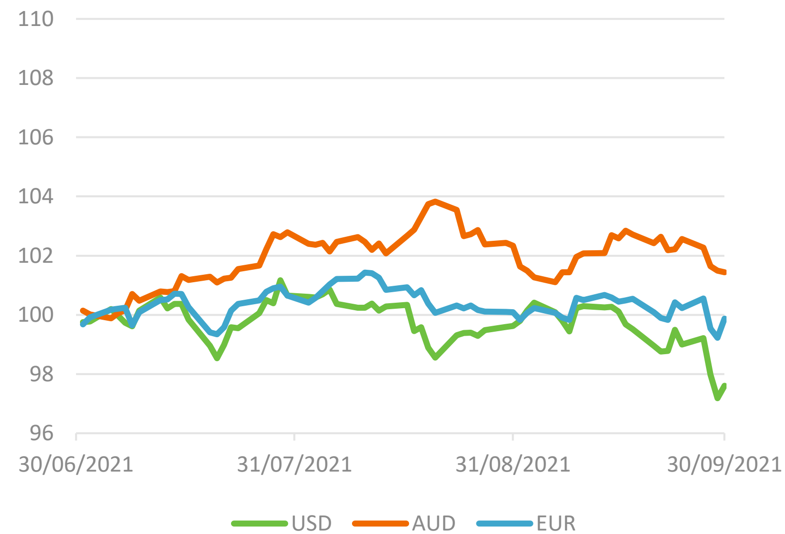
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	6.4	1.5	7.9	6.8	1.1
Stafford IV	39.6	0.9	40.5	5.2	33.5
JPM	6.6	0.6	7.2	6.6	0.6
Churchill	3.1	3.1	6.2	4.6	1.6
CBRE	6.5	1.1	7.6	6.6	0.9
Permira	2.6	1.2	3.8	4.4	-0.6

Hedged currency exposure as at quarter end**



Sterling performance vs foreign currencies (rebased to 100 at 30 September 2021)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*
*** As at Q2 2021 and Permira is shown as at Q4 2020*

- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 30 September 2021.
- The Fund made a commitment of 2.5% of Fund assets (£25m) to the LCIV renewable energy infrastructure fund during the quarter. The first capital call was paid in Q3 2021.
- The Committee agreed to increase the JP Morgan commitment by £12m to retain the allocation to infrastructure. This increase is expected to be implemented in Q4 2021.
- There are outstanding commitments of approximately £35m to the remaining funds which will be primarily funded from the RLAM corporate bond mandate.

Mandate	Infrastructure			Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	LCIV Renewable Energy Infrastructure Fund	Churchill Middle Market Senior Loan Fund II	Permira Credit Solutions IV Senior Fund
Commitment Date	25/04/18	18/12/20	30/06/21	12/18	12/18
Fund currency	EUR	EUR	GBP	USD	EUR
Gross commitment	£26m	£18m	£25m	£23.4m	£36 m
Net capital called during quarter (Payments less returned capital)	£1.4m	£3.1m	-	£0.4m	-
Net capital drawn to date*	£22.7m	-	-	£19.7m	c. £17.6m
Distributions/returned capital to date (includes income and other gains)*	£5.4m	-	-	£0.9m	£1.6m
NAV at quarter end*	£20.2m	£1.8m	-	£19.9m	£17.8m
Net IRR since inception (in fund currency)*	7.3% p.a. *(vs. 8-9% target)*	-	-	-	10.4%
Net cash yield since inception (in fund currency)*	5.0% p.a. *(vs. 5% target)*	-	-	-	-
Number of holdings*	30 funds, 306 underlying assets	3 investments		88 investments	31 investments

**as at 30/06/2021 (latest available), Stafford which is shown as at 31 March 2021 **refers to the IRR of realised investments in the portfolio*

Source: Investment Managers. All non-GBP figures have been converted into GBP.

Asset Class	Market Summary
Equities	• The earnings recovery shows little sign of flagging yet, but valuation multiples based on cyclically-adjusted earnings remain stretched versus history. Perhaps the only lens through which global equity valuations do not look exceptional is that of real yields.
Investment Grade Credit	• Spreads in investment-grade markets remain well below long-term median levels given strong technical support from central bank purchases, improving fundamentals and robust corporate earnings. Current valuations warrant caution as recent fundamental improvements are already reflected in spreads and future downside risks remain. Long-duration, low spread, investment-grade credit markets are susceptible to potential rate rises, particularly if inflation turn out to be less transitory than thought. We continue to have a preference for ABS which offer an attractive spread premium and provide insulation against interest-rate volatility.
Liquid Sub-Investment Grade Debt	• The rebound in growth and earnings is improving the fundamental backdrop with leverage levels falling and interest coverage increasing. Defaults and distress levels continue to decline, and defaults are expected to remain below long-term average levels over 2021 and 2022. However, our cautious view is predicated on spreads which are well below long-term median levels and are already fully pricing in the more favourable environment. We have a preference for loans over high yield given the more attractive valuations.
Private Lending	• A post-Covid rebound in earnings has improved fundamentals with most managers taking assets off watchlists. Valuations remain neutral, relative to traded loan spreads, but given loan spreads are below long-term median levels we retain some caution. There remains a very high level of activity in the market with most managers achieving high levels of deployment over the quarter, which is expected to continue in Q4.
Core UK Property	• The fundamentals for the UK property market have improved of late, principally from a stronger occupier market. The recovery in transaction activity continues to gather pace although it remains too early to conclude that this will be sustained despite tentative improvements in fundamentals.
Long Lease Property	• On an absolute basis, valuations appear less attractive than wider property market but are supported by marginally stronger fundamentals as are less exposed to the most troubled sectors. Improved market fundamentals may create a more bullish outlook for the sector, although it is still at an early stage.
Conventional Gilts	• The pace at which markets now imply interest rates will rise over the next few years does not feel unreasonable. Although the risks still seem skewed to an even faster pace, which would be bad for bond markets. The shorter end of the gilt market looks reasonable, however longer-dated yields remain expensive.
Index-Linked Gilts	• We see inflation pricing at terms between 10 and 30 years as being the most expensive. In the context of near-term inflation risks, implied inflation up to 10 years is perhaps less expensive than at first glance.

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.