London Borough of Havering Pension Fund

Q4 2021 Investment Monitoring Report

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HYMANS ROBERTSON

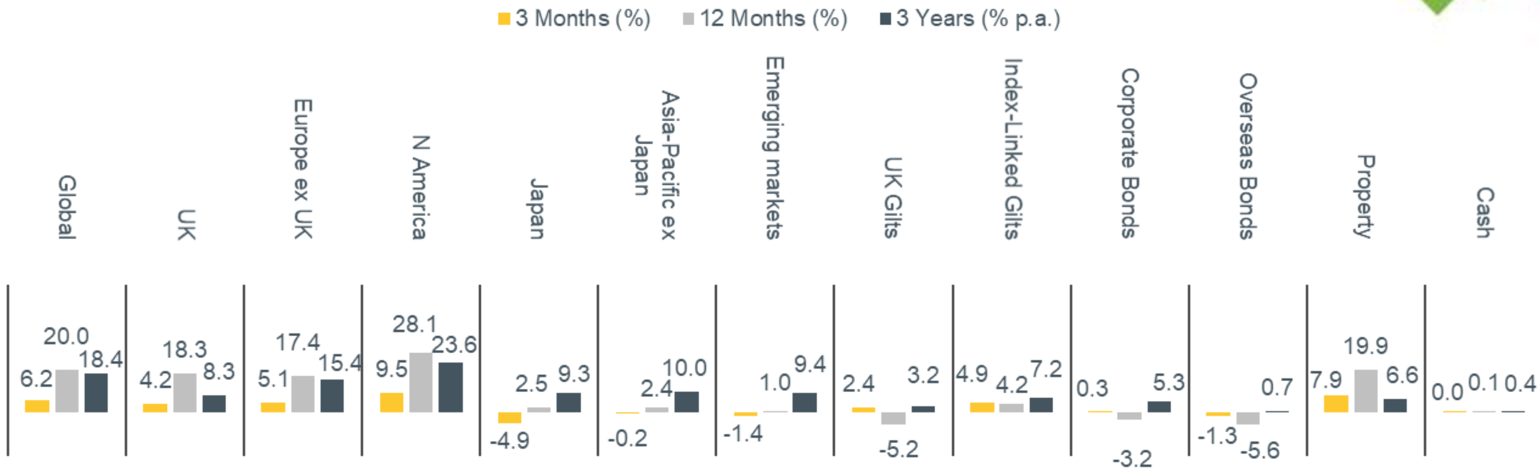
Economic momentum has slowed as rising COVID cases have led to a modest re-imposition of restrictions and increasing social distancing. This is expected to weigh on growth in Q4 2021 and Q1 2022, but we still anticipate above-trend growth in 2022.

There are signs that the strain on supply chains is easing, though the overall rate of price increases remains high. UK headline CPI inflation rose to 5.1% year-on-year in November whilst the equivalent US and eurozone measures rose to 6.8% and 4.9% respectively. In response, the Federal Open Markets Committee (FOMC) announced plans to accelerate the tapering of asset purchases, with the median FOMC member forecasting three rate hikes next year. The Bank of England raised rates to 0.25% p.a., with further rate hikes expected in 2022.

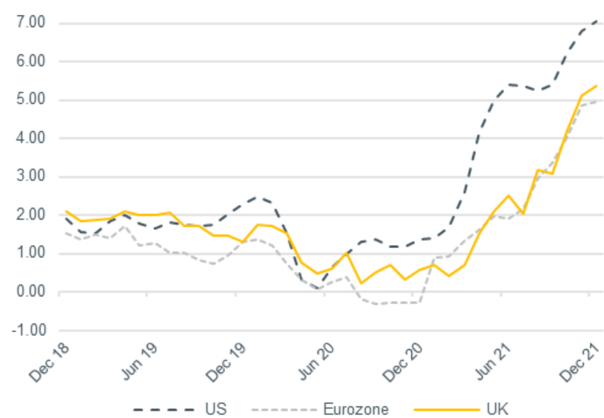
Trade-weighted sterling rose 1.7% through the quarter as markets adjusted for the earlier than expected rate rises. The US dollar rose 0.6% in trade-weighted terms, perhaps reflecting both safe haven appeal and slightly more hawkish messaging from the Federal Reserve.

US and UK bond yield curves flattened with short-term yields rising to reflect expectations of further interest rate hikes. Long-term yields remained largely unchanged. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, ended the quarter a little higher at 3.9% p.a. whilst longer term implied inflation fell. US 10-year implied inflation rose 0.2% p.a. to 2.6% p.a

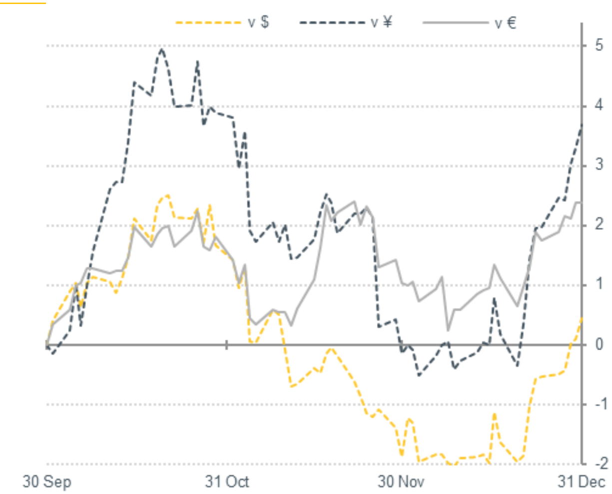
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



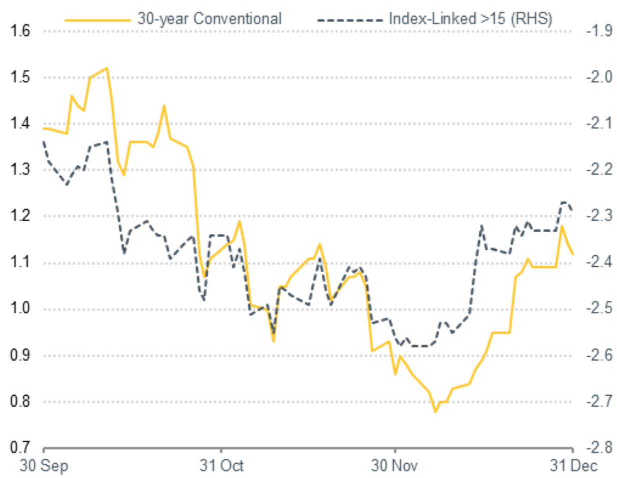
Global investment-grade spreads increased by 0.1% p.a. to 1.0% p.a., whilst speculative-grade spreads ended the quarter broadly in line with end-September levels at 3.7% p.a

Despite falling in November over Omicron variant concerns, global equities produced a total return of 7.0% in Q4, propelled higher by strong earnings growth. Sterling strength weighed on returns to unhedged UK investors delivering a 6.2% return in sterling terms. All sectors produced positive returns except telecoms, on an absolute basis. Outside telecoms, energy and financials were the main underperformers, weighed on by demand expectations and flatter yield curves, respectively. Technology was the notable outperformer, bolstered by strong earnings releases and the prospect of further lockdowns spurring demand for tech.

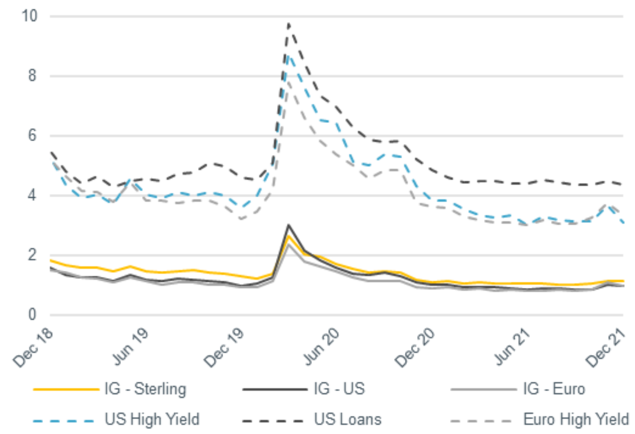
North America posted double digit returns on the back of tech outperformance. Japan, which reintroduced strict border restrictions shortly after the Omicron variant was made public, is at the bottom of the regional performance rankings over the quarter. Asian and emerging markets also continued their underperformance versus developed markets.

UK Monthly Property capital value index rose 13.9% over the 12 months to end December due to a buoyant industrial sector, where capital values have risen 32.5%. Retail capital values have risen by 6.9% over 12 months. There has been a flattening of the declines experienced in the office sector, delivering marginally positive capital growth of 0.1% over 2021. Total return on the index, including income, was 19.9% in the 12 months to end December.

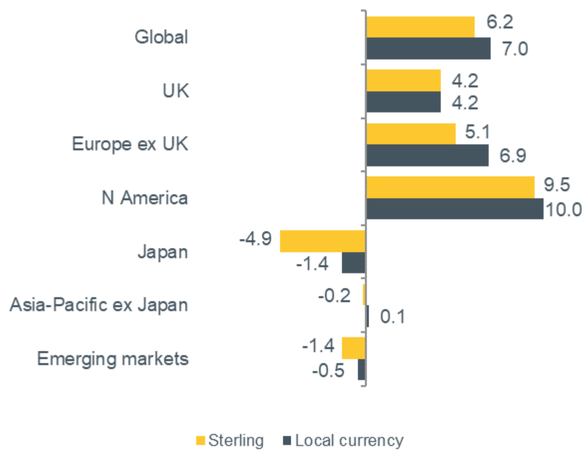
Gilt yields chart (% p.a.)



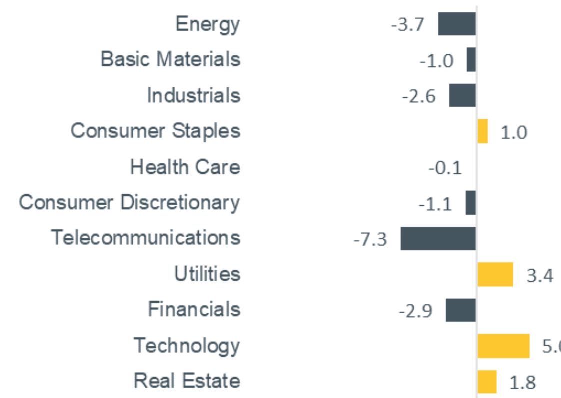
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



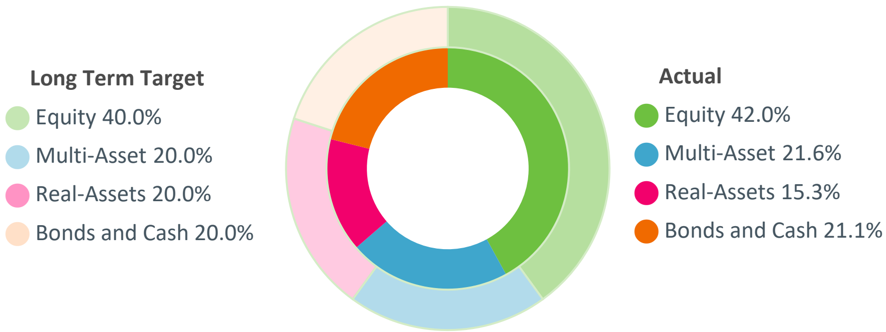
Global equity sector returns (%) [2]

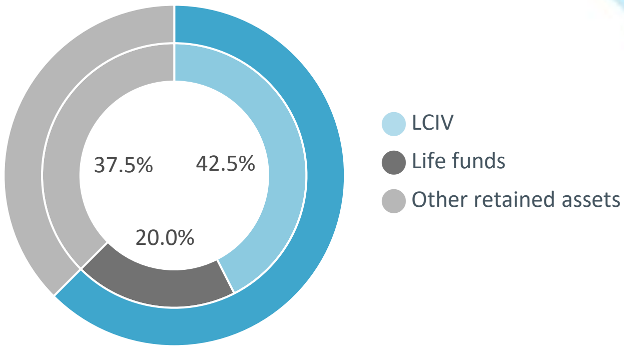


Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

- 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 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.
- Further commitments were made to infrastructure and private debt in 2021 in order to retain exposure to these asset classes as the existing investments mature and begin repaying capital to investors. The new commitments will continue 'ramping up' and calling more capital in 2022.

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, SSGA	20.0	LGIM	20.0		
Multi-Asset	20.0	Baillie Gifford, Ruffer	20.0				
Property	10.0					UBS, CBRE	10.0
Infrastructure	10.0	Various	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**	**-**	**42.5**	**-**	**20.0**	**-**	**37.5**

Current Investment Implementation

- The total value of the Fund's assets rose by c. £28.1m over the quarter to c. £948.3m as at 31 December 2021. Despite equities falling in November 2021 due to the Omicron variant concerns, global equities produced a total return of 7.0% over the quarter. Furthermore, capital values have continued to grow in the property market alongside positive rental growth.

- The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. An additional £12m has been committed to JP Morgan (to be funded from the LCIV Global Alpha Growth Paris Aligned fund) and is currently awaiting drawdown.

- As agreed by the Committee, over the quarter an additional £10m investment was made to the UBS fund, funded from internally held cash to bring the allocation back up towards target.

The Fund paid the following capital calls during the quarter:

- c.£4.2m to the LCIV Renewable Energy Infrastructure Fund funded from the LCIV Diversified Growth Fund
- c.£3.8m to Churchill Senior Loan Fund IV funded from existing cash and the RLAM corporate bond mandate.
- c.£0.9m to Permira funded from existing cash.
- c.£0.5m to Stafford SISF II funded from existing cash.
- c.£0.3m to Stafford SISF IV funded from existing cash.

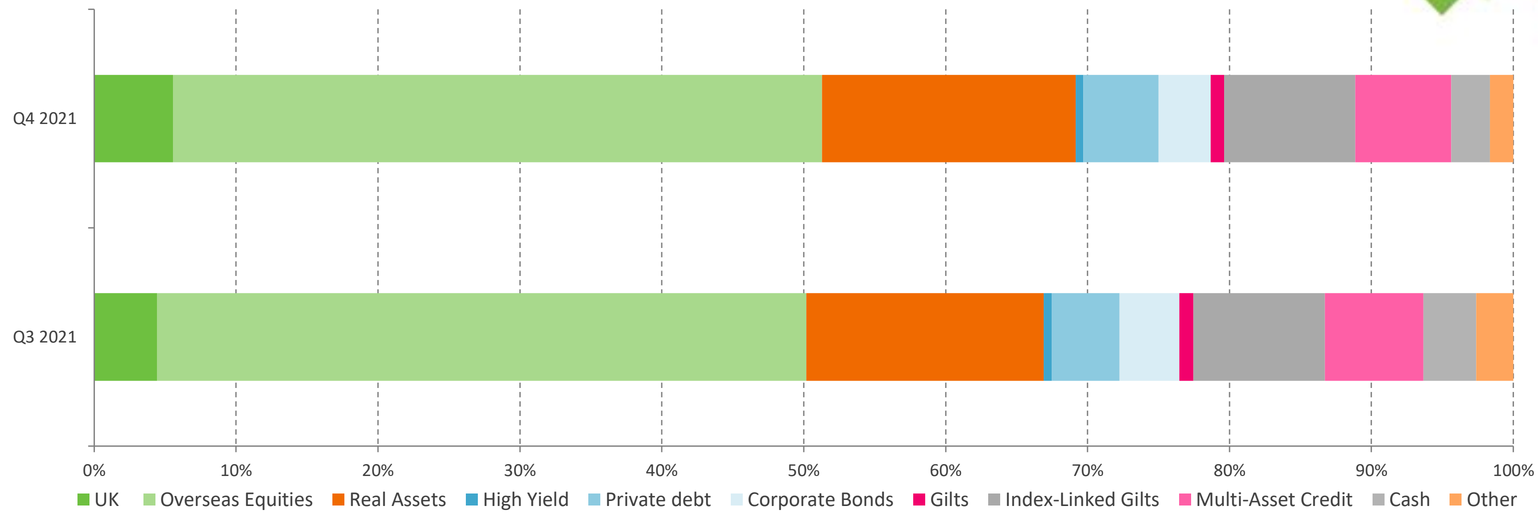
Asset Allocation

Manager		Valuation (£m) Q3 2021	Valuation (£m) Q4 2021	Actual Proportion	Benchmark	Relative
Equity		**387.0**	**398.3**	**42.0%**	**40.0%**	**2.0%**
LGIM Global Equity	LCIV aligned	77.8	35.8	3.8%	5.0%	-1.2%
LGIM Emerging Markets	LCIV aligned	39.4	38.8	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	89.8	96.6	10.2%	10.0%	0.2%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	180.1	179.7	19.0%	15.0%	4.0%
LCIV PEPPA Passive Equity	LCIV	0.0	47.3	5.0%	5.0%	0.0%
Multi-Asset		**204.9**	**205.3**	**21.6%**	**20.0%**	**1.6%**
LCIV Absolute Return Fund	LCIV	112.6	114.3	12.1%	12.5%	-0.4%
LCIV Diversified Growth Fund	LCIV	92.3	91.0	9.6%	7.5%	2.1%
Real-Assets		**127.4**	**144.8**	**15.3%**	**20.0%**	**-4.7%**
UBS Property	Retained	44.3	57.5	6.1%	6.0%	0.1%
CBRE	Retained	29.7	30.1	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.4	23.3	2.5%	4.0%	-1.5%
Stafford Capital Global Infrastructure SISF II	Retained	22.0	21.7	2.8%	3.5%	-0.7%
Stafford Capital Global Infrastructure SISF IV	Retained	6.2	5.3			
LCIV Renewable Energy Infrastructure Fund	LCIV	1.9	6.9	0.7%	2.5%	-1.8%
Bonds and Cash		**201.0**	**200.0**	**21.1%**	**20.0%**	**1.1%**
RLAM Index Linked Gilts	Retained	41.3	43.5	4.6%	5.0%	-0.4%
RLAM Multi-Asset Credit	Retained	63.8	64.1	6.8%	7.5%	-0.7%
RLAM Corporate Bonds	Retained	32.2	28.1	3.0%	0.0%	3.0%
Churchill Senior Loan Fund II	Retained	20.1	18.6	2.0%	3.0%	-1.0%
Churchill Senior Loan Fund IV	Retained	0.0	5.3	0.6%	0.0%	0.6%
Permira	Retained	23.9	26.4	2.8%	4.5%	-1.7%
Cash at Bank	Retained	20.7	13.1	1.4%	0.0%	1.4%
Currency Hedging P/L	Retained	-1.0	0.8	0.1%	0.0%	0.1%
Total Fund		**920.3**	**948.3**	**100.0%**	**100.0%**	

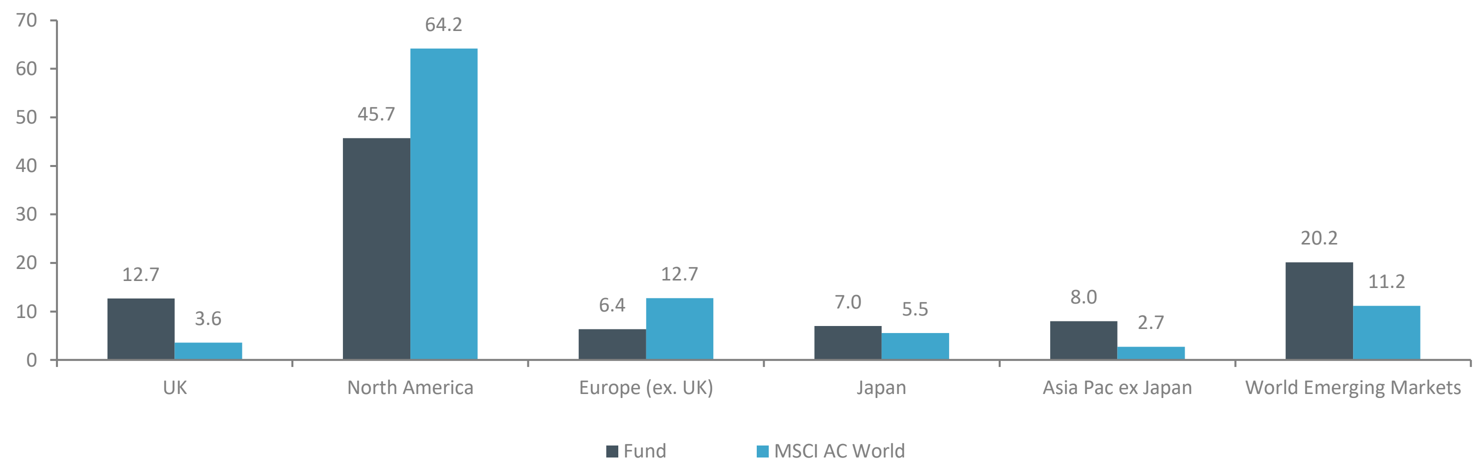
Source: Northern Trust, Investment Managers

- 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 increased over the quarter to c.51.3% as at 31 December 2021 (c.50.2% at 30 September 2021) – this was driven by the strong equity performance of the quarter.
- The allocation to private debt increased to c.5.3% as at 31 December 2021 (c.4.8% as at 30 September 2021) – this was due to commitment to the Churchill Senior Loan Fund IV.
- The allocation to real assets continued to increase to c.17.9% as at 31 December 2021 (c.16.7% as at 30 September 2021) – this movement was driven by capital calls from the LCIV Renewable Energy Infrastructure fund and Stafford over the quarter.

Asset Class Exposures



Regional Equity Allocation



Source: Investment Managers, Datastream

- 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 LGIM mandates continued to broadly track their respective benchmarks over the quarter, whilst mixed returns were observed across the other mandates.
- In terms of growth mandates, the LCIV Global Alpha Growth Paris Aligned fund has significantly underperformed its benchmark. The Global Alpha fund has a bias towards stocks expected to demonstrate rapid levels of 'growth' and a bias away from stocks perceived to be good 'value' from a fundamental perspective. 'Value' significantly outperformed 'growth' during the quarter which was detrimental to relative performance. In addition, the fund is overweight, compared to benchmark, to Chinese equities which continued to struggle over the quarter.
- 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	6.2	6.2	**0.0**	19.9	20.0	**-0.1**	18.3	18.3	**0.0**	13.3	13.3	**0.0**
LGIM Emerging Markets	-1.4	-1.4	**0.0**	0.9	1.0	**-0.1**	8.0	8.2	**-0.2**	8.0	8.2	**-0.2**
LGIM Future World Fund	7.7	7.7	**0.0**	-	-	**-**	-	-	**-**	4.0	4.1	**0.0**
LCIV Global Alpha Growth Paris Aligned Fund	-0.2	7.3	**-7.0**	8.1	21.3	**-10.9**	22.4	18.7	**3.2**	16.0	13.5	**2.2**
LCIV Absolute Return Fund	1.5	1.0	**0.5**	10.3	4.1	**6.0**	9.7	4.5	**5.0**	5.4	4.7	**0.7**
LCIV Diversified Growth Fund	3.8	0.9	**2.9**	9.3	3.6	**5.5**	8.0	3.9	**3.9**	5.0	4.0	**1.0**
Income												
UBS Property	6.9	7.5	**-0.6**	19.3	19.2	**0.1**	6.9	6.3	**0.6**	7.0	7.9	**-0.8**
CBRE	1.4	3.5	**-2.0**	12.6	10.4	**2.0**	6.4	7.2	**-0.8**	6.4	7.2	**-0.8**
JP Morgan	3.8	3.5	**0.3**	9.1	10.4	**-1.2**	7.4	7.2	**0.1**	7.4	7.2	**0.1**
Stafford Capital Global Infrastructure SISF II	-1.3	3.5	**-4.7**	3.8	10.4	**-6.0**	5.1	7.2	**-2.0**	5.6	7.3	**-1.7**
Stafford Capital Global Infrastructure SISF IV	-20.6	3.5	**-23.3**	10.9	8.9	**1.8**	-	-	**-**	10.9	8.9	**1.8**
LCIV Renewable Energy Infrastructure Fund	6.0	3.6	**2.4**	-	-	**-**	-	-	**-**	5.4	5.6	**-0.2**
Protection												
RLAM Index Linked Gilts	5.0	5.4	**-0.4**	4.2	4.2	**0.0**	-	-	**-**	8.3	8.3	**0.0**
RLAM Multi-Asset Credit	0.6	0.4	**0.2**	5.1	2.6	**2.4**	9.4	8.3	**1.0**	8.3	7.5	**0.8**
RLAM Corporate Bonds	2.5	1.8	**0.6**	-3.4	-5.3	**2.0**	-	-	**-**	7.5	6.8	**0.7**
Churchill Senior Loan Fund II	0.7	1.0	**-0.3**	7.2	4.1	**3.0**	3.1	4.5	**-1.4**	3.1	4.5	**-1.4**
Permira	1.6	1.0	**0.6**	6.8	4.1	**2.6**	-	-	**-**	3.0	4.4	**-1.4**
Total	3.1	4.0	**-0.8**	10.6	10.7	**-0.1**	12.2	9.8	**2.2**	8.3	-	**-**

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..

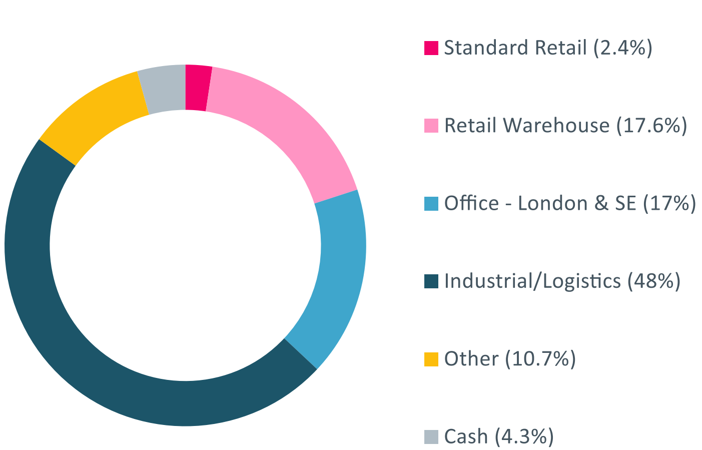
UBS Triton Property Fund

- 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 has continued to increase the level of rent collection. Rent collection remained strong over Q4 2021 at 96% and 93% over the last 12 months of the year.

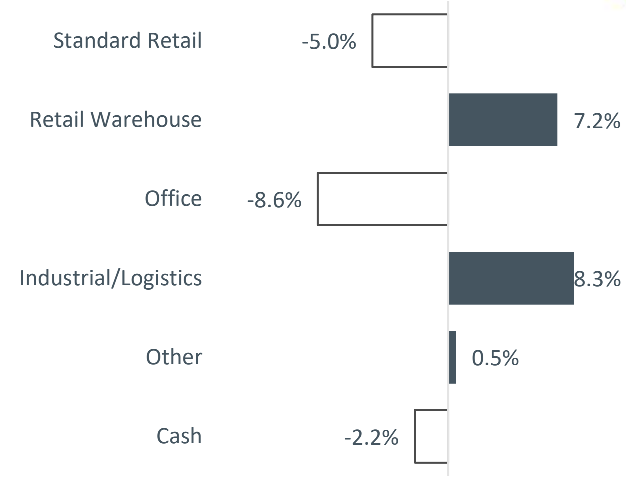
CBRE Global Alpha Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- The Global Alpha Fund is a global mandate and invests across a range of regions (as displayed in the chart, far right) rather than just the UK – as is the case with the UBS fund.

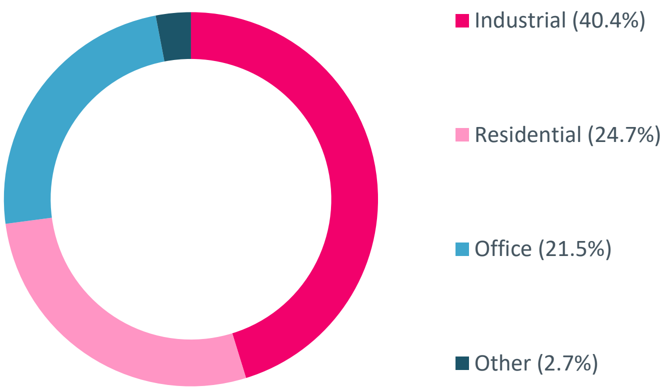
UBS Sector Allocation



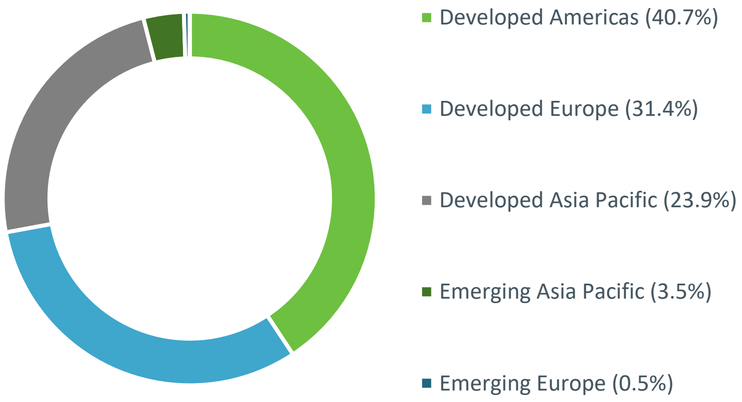
UBS Sector Allocation Relative to Benchmark



CBRE Sector Allocation*



CBRE Regional Allocation*



Source: Northern Trust, UBS, CBRE
**as at 30 September 2021 (latest available)*

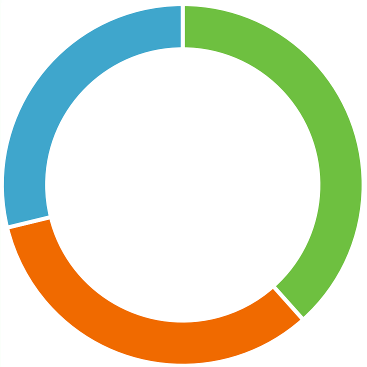
JP Morgan Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a positive 3.8%, outperforming its benchmark of UK CPI + 5%. This outperformance can be attributed to the fund's allocation to utilities, including renewables, which performed well over the period as utility prices rose over the last quarter of the year.

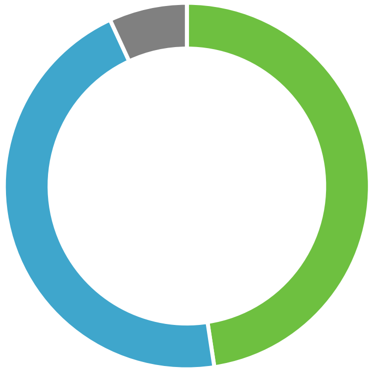
LCIV Renewable Energy Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- As a fund of funds, the table summarises the status of the LCIV Renewable Infrastructure Fund in terms of its commitments, their weights in the portfolio and their respective capital amounts called.
- Please note the percentage amount invested is based on invested data as at 30 June 2021.

JP Morgan Sector Allocation*



JP Morgan Regional Allocation*



LCIV Renewable Infrastructure Fund Commitments**

Fund	Transaction Type	Weight	Commitment (£m)	Called (£m)	Invested (%)	Capacity
BlackRock Global Renewable Power III	Primary	14.7%	100	17.8	10.9%	Closed
Quinbrook Renewable Impact Fund	Primary	14.7%	100	17.4	6.4%	£350m + Final Close December 2022
Stonepeak Global Renewables Fund	Primary	24.9%	170	8.6	4.7%	Closed
Foresight European Infrastructure Partners	Primary	20.5%	140	24.0	17.3%	Closed
BlackRock UK Renewable Income Fund	Secondary	14.5%	99.3	99.3	100%	Closed
Cash	-	10.7%	73.2	-	-	-
Total		100%	682.5			

Source: Northern Trust, JP Morgan, LCIV
**as at 30 September 2021 (latest available)*
*** as at 3 November 2021 (latest available)*

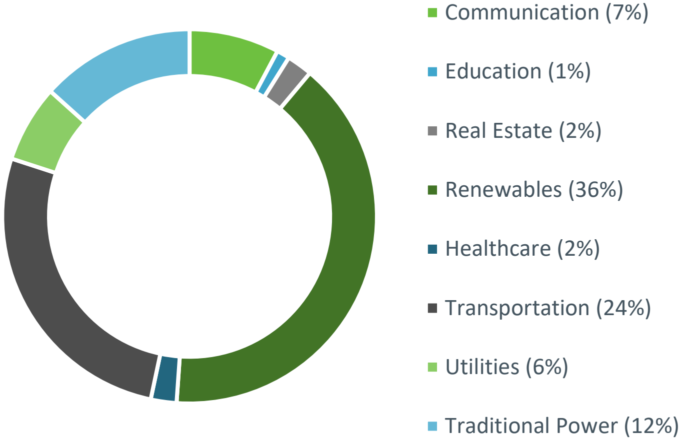
Stafford Capital Global Infrastructure SISF II

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a negative 1.3%, underperforming its benchmark of UK CPI + 5% - in part driven by the fund's allocation to the communication sector and factors such as the delays in the roll-out of 5G.
- The fund is comprised of 22 funds, 13 co-investments and 311 underlying assets.

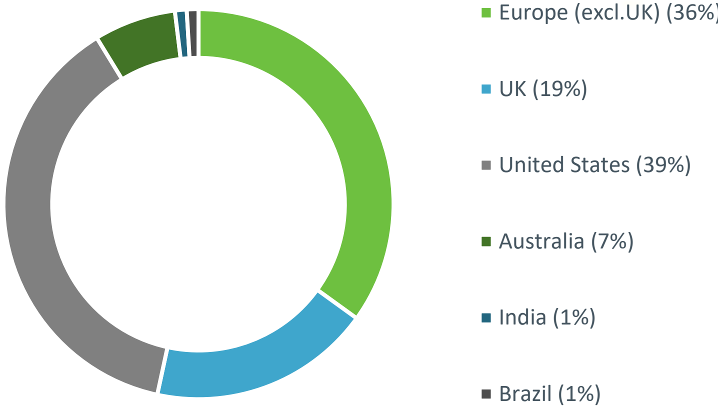
Stafford Capital Global Infrastructure SISF IV

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a negative 20.6%, significantly underperforming the performance benchmark of UK CPI + 5%. However, the early stage performance of the private market fund can be very volatile using the method utilised for performance measurement. This is to be expected and should not provide cause for concern.
- The fund is comprised of 6 investments and 121 underlying assets.

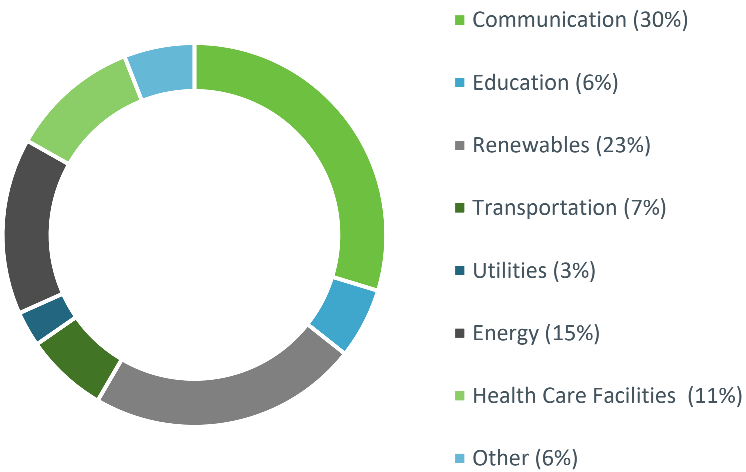
Stafford Capital Global Infrastructure SISF II Sector Allocation*



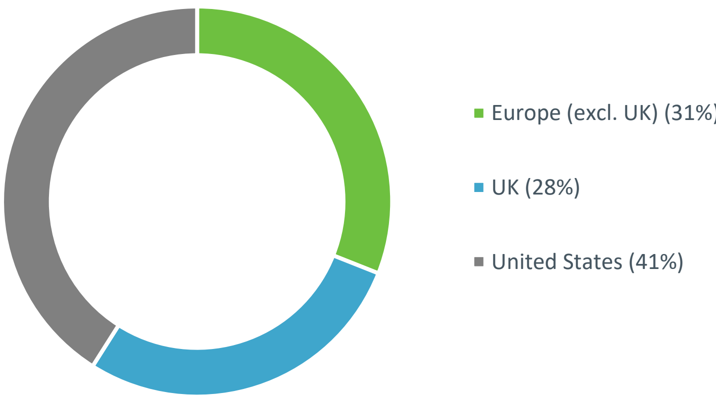
Stafford Capital Global Infrastructure SISF II Regional Allocation*



Stafford Capital Global Infrastructure SISF IV Sector Allocation*



Stafford Capital Global Infrastructure SISF IV Regional Allocation*



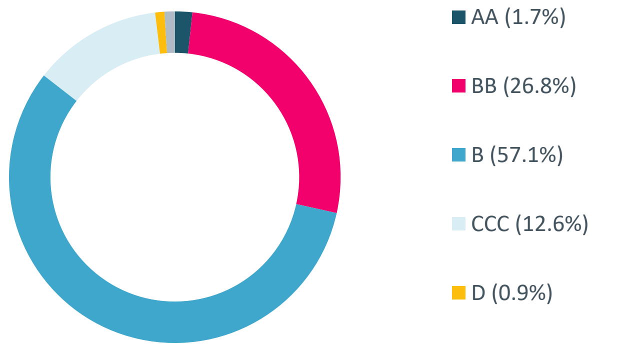
Source: Northern Trust, Stafford Capital
**as at 30 September 2021 (latest available)*

- 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.
- Over the quarter, despite credit spreads widening, the MAC portfolio returned positively. This is primarily due to RLAM increasing their short duration exposure early in the quarter amidst expectations of increased volatility.
- Real yields continued to fall over the quarter meaning the index linked gilts mandate returned positively, however slightly underperformed its respective benchmark.
- Since inception, all portfolios outperform or perform in line with their respective benchmarks.

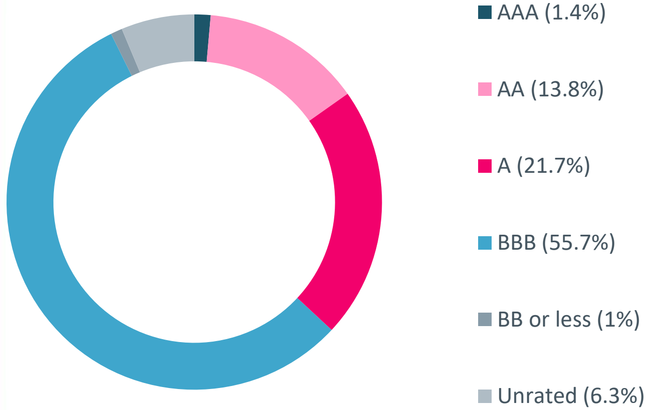
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
RLAM Multi-Asset Credit	0.6	5.1	9.4	8.3
Benchmark	0.4	2.6	8.3	7.5
Relative	0.2	2.4	1.0	0.8
RLAM Index Linked Gilts	5.0	4.2	n/a	8.3
Benchmark	5.4	4.2	n/a	8.3
Relative	-0.4	0.0	n/a	0.0
RLAM Corporate Bonds	2.5	-3.4	n/a	7.5
Benchmark	1.8	-5.3	n/a	6.8
Relative	0.6	2.0	n/a	0.7

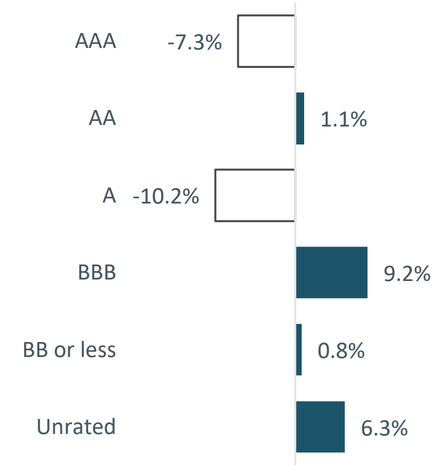
Credit Allocation (MAC)



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 volatility of returns (measured as the standard deviation of quarterly returns since inception) is 5.5% to date when the impact of currency fluctuations is included and only 5.1% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

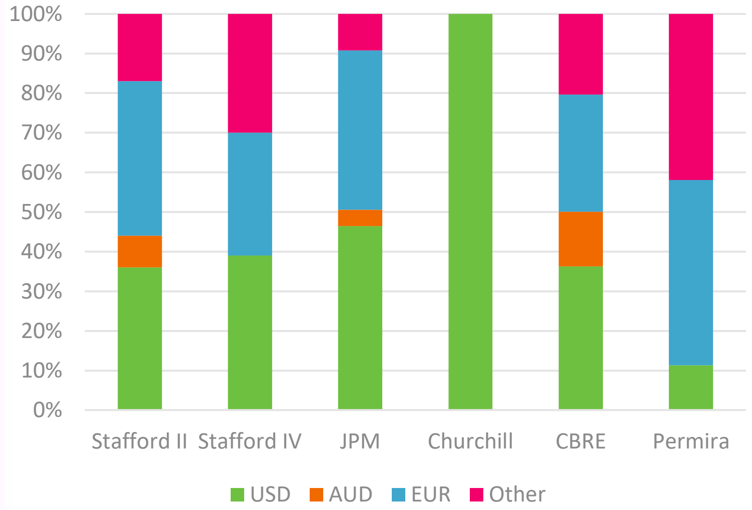
Q4 2021 Performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	-1.3	-0.4	-1.7	3.5	-5.0
Stafford IV	-20.6	-1.2	-21.7	3.5	-24.4
JPM	3.8	-0.5	3.3	3.5	-0.2
Churchill II	0.7	-1.4	-0.7	1.0	-1.7
CBRE	1.4	-0.5	0.9	3.5	-2.5
Permira	1.6	0.1	1.7	1.0	0.7

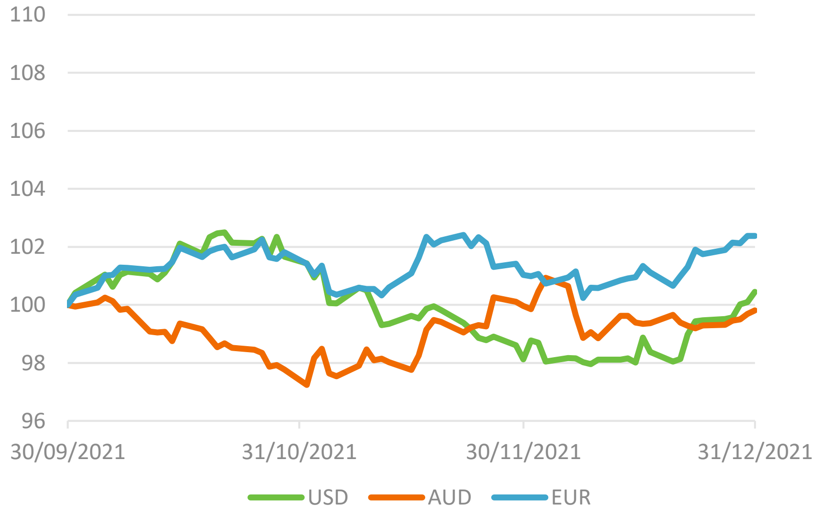
Performance Since Mandate Inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	5.6	1.2	6.7	7.3	-0.6
Stafford IV	10.9	-0.3	10.6	8.9	1.5
JPM	7.4	0.1	7.5	7.2	0.2
Churchill II	3.1	1.7	4.8	4.5	0.2
CBRE	6.4	0.5	7.0	7.2	-0.3
Permira	3.0	1.4	4.3	4.4	-0.1

Hedged Currency Exposure **



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 Q3 2021*

- 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 31 December 2021.
- It has been agreed that an additional £12m will be allocated to JP Morgan and this will be funded from the Baillie Gifford Global Alpha Growth Paris Aligned fund. The additional investment is currently awaiting drawdown.
- 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	Churchill Middle Market Senior Loan Fund IV	Permira Credit Solutions IV Senior Fund
Commitment Date	25/04/2018	18/12/2020	30/06/2021	12/2018	29/09/2021	12/2018
Fund Currency	EUR	EUR	GBP	USD	USD	EUR
Gross Commitment (GBP estimate)	£26m	£18m	£25m	£23.4m	£19.6m	£36 m
Net Capital Called During Quarter (Payments Less Returned Capital)	£0.5m	£0.3m	£4.2m	-	£3.8m	£0.9m
Net Capital Drawn To Date	£25.1m*	£4.2m*	£6.1m	£21.3m	£5.3m	£23.9m*
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£6.4m*	-	-	£3.6m	-	£1.8m*
NAV at Quarter End	£21.7m	£5.3m	£6.9m	£18.6m	£5.3m	£26.4m
Net IRR Since Inception	7.2% p.a.* (v. 8-9% target)	-	-	7.25%**	-	9.8%*
Net Cash Yield Since Inception	4.5% p.a.* (v. 5% target)	-	-	-	-	-
Number of Holdings	35 funds*	6 investments*	-	86 investments	-	76 investments*

**as at 30/09/2021 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Our view on equities is underpinned by above trend growth, which should lend continued support to earnings growth, and negative real interest rates, which are expected to persist for some time even as interest rates gradually rise. Valuations remain high, particularly in the US, with multiples elevated versus historical averages.
Investment Grade Credit	• Current valuations warrant caution as relatively robust fundamentals are already reflected in spreads whilst future downside risks remain. Not only do current inflationary pressures have scope to increase input costs and squeeze margins, inflation erodes the real value of nominal fixed-interest coupons and long-duration, low spread, investment-grade credit capital values are susceptible to potential rate rises to combat inflation. Our preference is for low duration alternatives.
Emerging Market Debt	• A tightening of monetary policy by the major advanced central banks may pose a near-term technical headwind for emerging market debt in 2022. However, emerging market central banks have hiked rates sharply in 2021 to rein in inflation and yields have risen significantly. Term premia are at decade highs and emerging market currencies in aggregate look cheap versus the dollar on a longer-term view. Hard currency yield spreads, and the premium they offer over similarly rated US high yield markets, are above long-term median levels.
Liquid Sub-Investment Grade Debt	• We retain a degree of caution as speculative-grade credit spreads, which remain well below long-term median levels, more than fully reflect the fundamental positives, and do not leave much room for the potential impact of risks. We prefer loans where spreads are more attractive and less exposed to rate rises.
Private Lending	• Fundamentals have improved post-COVID, but further lockdowns may prove a further headwind to the struggling retail and travel sectors. Valuations remain neutral, relative to traded loan spreads, but loan spreads well below long-term median levels still gives us cause for caution. That said, we are less cautious on private loan markets versus high yield, in line with our preference for traded loans over high yield bonds in liquid speculative-grade markets.
Core UK Property	• UK core property market fundamentals continue to improve, although this masks differing fortunes within sectors. Valuations remain rich as yields continue to fall and while the transactional market remains robust, the volume of deals is not significantly ahead of longer-term averages.
Long Lease Property	• While long lease property valuations are less attractive than core property, these are underpinned by a marginally stronger fundamental picture and greater demand from investors. In a time of inflation uncertainty, we prefer long lease funds with a high degree of inflation-linked rents.
Conventional Gilts	• The path of cash rates currently implied by instantaneous forward nominal yields, rising to 1.6% p.a. over the next 10 to 15 years, does not look unreasonable, though the improvement in the UK labour market and above forecast inflation opens up the possibility of a more rapid pace of near-term rate increases. Implied cash rates falling beyond 15 years makes us wary of longer-term forward yields.
Index-Linked Gilts	• Given elevated inflation forecasts, near-term implied inflation is not unreasonable relative to fundamentals. Between 10 and 25 years, implied inflation looks very expensive, where levels of implied inflation could be more impacted by RPI reform. Beyond 25 years, inflation pricing does not look particularly demanding.

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 vs. 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.